

# City of Pequot Lakes, Minnesota

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Audited Financial Statements

For The Year Ended December 31, 2023

**SCHLENNER  
WENNER & Co.**  
CPAs

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**INTRODUCTORY  
SECTION**

**CITY OF PEQUOT LAKES, MINNESOTA  
CITY COUNCIL AND OFFICIALS  
FOR THE YEAR ENDED DECEMBER 31, 2023**

**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**

Angie Duus	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 accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Pequot Lakes, Minnesota (the City), as of and for the year ended December 31, 2023, 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 financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Pequot Lakes, Minnesota, as of December 31, 2023, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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

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

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

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

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

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

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

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

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

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

### ***Supplementary Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying introductory section, combining nonmajor governmental funds 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 governmental funds 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 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 governmental funds 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 August 27, 2024, on our consideration of the City of Pequot Lakes' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Pequot Lakes' internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Schlenner Wenner & Co.".

**SCHLENNER WENNER & CO.**

St. Cloud, Minnesota

August 27, 2024



**REQUIRED SUPPLEMENTARY  
INFORMATION**

**CITY OF PEQUOT LAKES, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2023**

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, 2023. 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 increased \$152,524 as a result of this year's operations.
- In the City's business-type activities, revenues increased \$131,185 (or 19.25 percent) and program expenses increased \$63,723 (or 10.01 percent). These changes are discussed in greater detail throughout the following pages.
- Total cost of all of the City's programs increased \$344,492 (or 10.37 percent).
- The City's General Fund generated more revenue than budgeted by \$165,994. Expenditures were less than budgeted by \$188,062, primarily due to capital outlay costs being less than anticipated for the year. See additional details starting on page 64.

**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, 2023**

**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, 2023**

**THE CITY AS A WHOLE**

The City's combined net position increased \$152,524 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	
	2023	2022	2023	2022	2023	2022
Current and Other Assets	\$ 7,299,418	\$ 6,648,099	\$ 3,094,651	\$ 2,878,423	\$ 10,394,069	\$ 9,526,522
Net Capital Assets	<u>9,975,501</u>	<u>10,538,896</u>	<u>3,681,883</u>	<u>3,859,515</u>	<u>13,657,384</u>	<u>14,398,411</u>
Total Assets	17,274,919	17,186,995	6,776,534	6,737,938	24,051,453	23,924,933
Deferred Outflows of Resources	922,640	1,035,489	43,254	25,492	965,894	1,060,981
Current Liabilities	187,494	60,581	115,159	111,972	302,653	172,553
Noncurrent Liabilities	<u>2,199,679</u>	<u>3,221,452</u>	<u>1,609,768</u>	<u>1,702,488</u>	<u>3,809,447</u>	<u>4,923,940</u>
Total Liabilities	2,387,173	3,282,033	1,724,927	1,814,460	4,112,100	5,096,493
Deferred Inflows of Resources	948,658	118,942	39,888	6,302	988,546	125,244
Net Position:						
Net Investment in						
Capital Assets	8,703,745	9,128,252	2,182,973	2,236,467	10,886,718	11,364,719
Restricted	215,963	198,259	-	-	215,963	198,259
Unrestricted	<u>5,942,020</u>	<u>5,494,998</u>	<u>2,872,000</u>	<u>2,706,201</u>	<u>8,814,020</u>	<u>8,201,199</u>
Total Net Position	<u>\$ 14,861,728</u>	<u>\$ 14,821,509</u>	<u>\$ 5,054,973</u>	<u>\$ 4,942,668</u>	<u>\$ 19,916,701</u>	<u>\$ 19,764,177</u>

The net position of the City's governmental activities increased by \$40,219 (0.27 percent). Unrestricted net position (the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements) increased by \$447,022 compared to the prior year.

The net position of the City's business-type activities increased by \$112,305 (2.27 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, 2023**

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

**Table 2  
Changes in Net Position**

	Governmental Activities		Business-Type Activities		Total Government	
	2023	2022	2023	2022	2023	2022
<b>REVENUE</b>						
Charges for Services	\$ 156,222	\$ 152,007	\$ 751,413	\$ 677,867	\$ 907,635	\$ 829,874
Operating Grants and Contributions	200,564	194,535	-	-	200,564	194,535
Capital Grants and Contributions	38,430	152,988	-	1	38,430	152,989
Taxes	2,241,849	1,867,123	-	-	2,241,849	1,867,123
Tax Increment	4,740	-	-	-	4,740	-
Intergovernmental	73,812	80,053	12	304	73,824	80,357
Franchise Taxes	36,646	33,974	-	-	36,646	33,974
Investment Income	137,465	(7,306)	51,975	(7,993)	189,440	(15,299)
Rental Income	8,472	13,941	-	1,948	8,472	15,889
Other	102,022	120,553	9,171	9,259	111,193	129,812
<b>Total Revenues</b>	<b>3,000,222</b>	<b>2,607,868</b>	<b>812,571</b>	<b>681,386</b>	<b>3,812,793</b>	<b>3,289,254</b>
<b>PROGRAM EXPENSES</b>						
General Government	711,547	721,508	-	-	711,547	721,508
Public Safety	1,076,235	984,413	-	-	1,076,235	984,413
Public Works	923,550	782,775	-	-	923,550	782,775
Parks and Recreation	121,194	99,302	-	-	121,194	99,302
Economic Development	71,524	37,593	-	-	71,524	37,593
Cemetery	3,395	1,761	-	-	3,395	1,761
Debt Service	58,058	57,382	-	-	58,058	57,382
Water	-	-	352,689	351,827	352,689	351,827
Sewer	-	-	347,577	284,716	347,577	284,716
<b>Total Expenses</b>	<b>2,965,503</b>	<b>2,684,734</b>	<b>700,266</b>	<b>636,543</b>	<b>3,665,769</b>	<b>3,321,277</b>
Gain on Disposal of Assets	5,500	861	-	-	5,500	861
Capital Appropriation and Change in Equity Interest (Net)	-	(345,557)	-	-	-	(345,557)
Transfers	-	4,610	-	(4,610)	-	-
<b>Change in Net Position</b>	<b>40,219</b>	<b>(416,952)</b>	<b>112,305</b>	<b>40,233</b>	<b>152,524</b>	<b>(376,719)</b>
Net Position - Beginning of Year	14,821,509	15,238,461	4,942,668	4,902,435	19,764,177	20,140,896
Net Position - End of Year	<u>\$14,861,728</u>	<u>\$14,821,509</u>	<u>\$ 5,054,973</u>	<u>\$ 4,942,668</u>	<u>\$19,916,701</u>	<u>\$19,764,177</u>

The City's total revenues increased by \$523,539 (15.92 percent), primarily due to an increase in property tax revenues. Investment income also increased significantly, primarily due to gains resulting from changes in market performance. The total cost of all programs and services increased by \$344,492 (or 10.37 percent), primarily due to increased public works expenses.

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, 2023**

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

**Governmental Activities**

Revenue for the City's governmental activities increased by \$392,354 (15.05 percent) and total expenses increased \$280,769 (10.46 percent). Revenues and expenses were generally consistent year to year, with the exception of the matters previously noted.

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:

- Public Works total and net cost of services increased due to increased road maintenance costs, with no corresponding increase in related revenue in the current year.

**Table 3  
Governmental Activities**

	Total Cost of Services		Net Cost of Services	
	2023	2022	2023	2022
General Government	\$ 711,547	\$ 721,508	\$ 639,651	\$ 547,045
Public Safety	1,076,235	984,413	775,287	754,366
Public Works	923,550	782,775	922,991	789,373
Parks and Recreation	121,194	99,302	100,181	(1,916)
Economic Development	71,524	37,593	71,524	37,593
Cemetery	3,395	1,761	2,595	1,361
Debt Service	58,058	57,382	58,058	57,382
<b>Totals</b>	<b>\$ 2,965,503</b>	<b>\$ 2,684,734</b>	<b>\$ 2,570,287</b>	<b>\$ 2,185,204</b>

**Business-type Activities**

Revenues of the City's business-type activities (see Table 2) increased by \$131,185 (19.25 percent) and program expenses increased by \$63,723 (10.01 percent). The increase in expenses is primarily due to an increase in wages and benefits in the current year.

**CITY OF PEQUOT LAKES, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2023**

**THE CITY'S FUNDS**

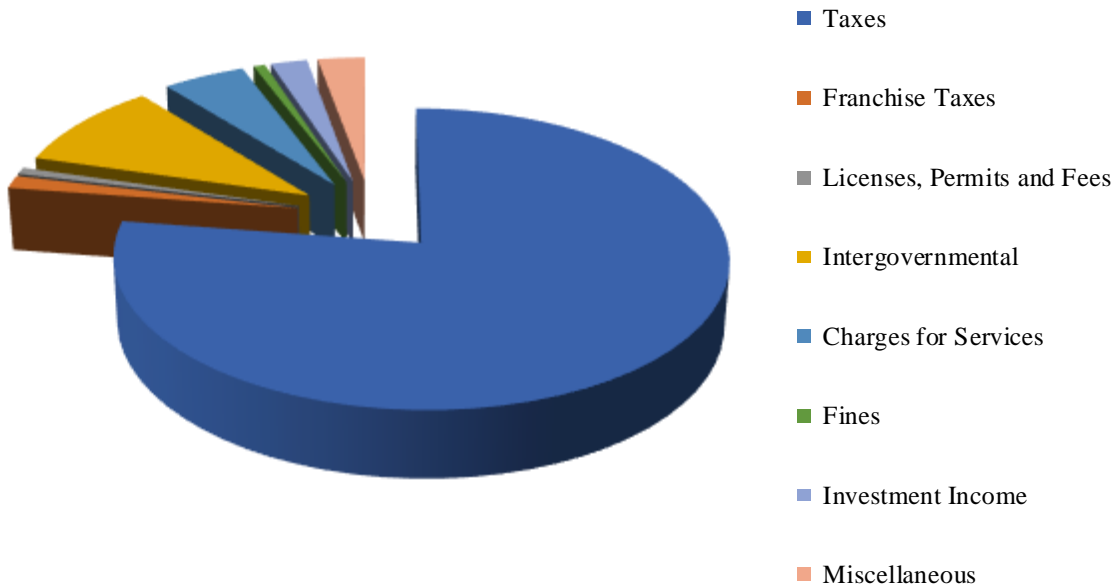
**Governmental Funds**

As the City completed the year, its governmental funds (as presented in the balance sheet on page 20) reported a combined fund balance of \$6,659,857. This is an increase of \$472,975 from the prior year. Operations were comparable to the prior year, with the exception of less capital outlay expenditures in the current year. Financial information specific to the governmental funds is detailed in the following pages. Such information was derived from the fund financials. The following is a summary of the City's major governmental funds:

Major Funds	Fund Balance December 31,		Increase (Decrease)
	2023	2022	
<b>General Fund</b>	\$ 2,494,214	\$ 2,162,348	\$ 331,866

The fund balance of the General Fund increased by \$331,866 compared to 2022. Overall, operations were generally consistent year-to-year, with the exception of increased property taxes, as previously discussed. Details of the General Fund's revenues and expenditures are displayed below:

**General Fund Revenues**

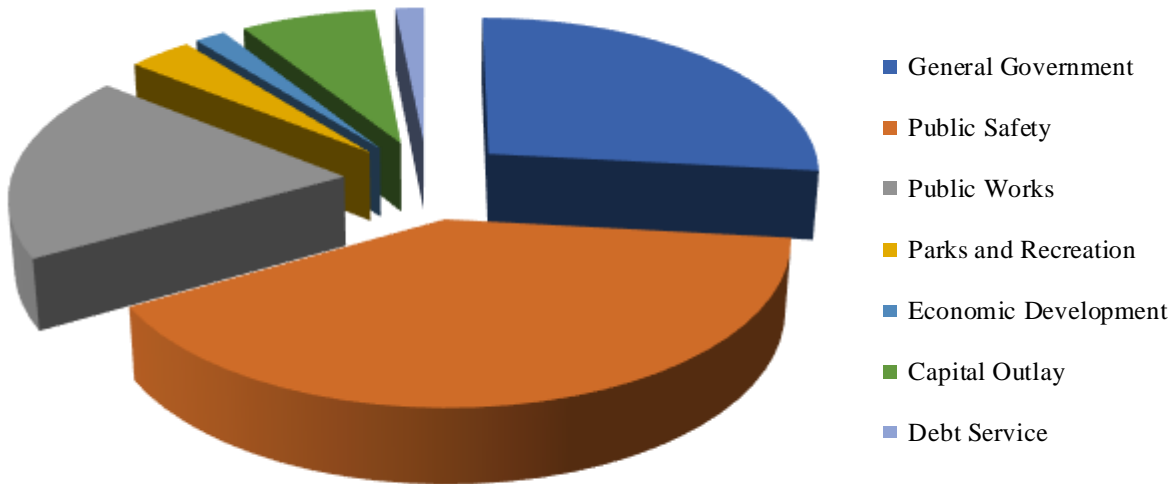


The City receives the majority of its funding in the General Fund in the form of taxes (77.35 percent), funding received from other governmental agencies (9.68 percent), and charges for services (5.02 percent). Overall, the distribution of the City's General Fund revenues was comparable to the prior year.

**CITY OF PEQUOT LAKES, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2023**

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

**General Fund Expenditures**



A significant portion of the City's General Fund expenditures were used for public safety (39.98 percent). Remaining expenditures are used primarily for general government operations (26.75 percent), public works (18.98 percent), and capital outlay (7.46 percent). Expenditures are comparable to the prior year.

Major Funds	Fund Balance December 31,		Increase (Decrease)
	2023	2022	
<b>Highway 371 Project Fund</b>	\$ 4,741,861	\$ 4,569,082	\$ 172,779

The Highway 371 Project fund balance increased primarily due to an increase in investment income as compared to the prior year, resulting in operational revenues exceeding expenditures of the fund.

<b>Capital Improvement Fund</b>	\$ (1,085,188)	\$ (1,067,935)	\$ (17,253)
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The Capital Improvement fund balance decreased as a result of there being no revenues for the fund in the current year to finance the expenditures incurred.

<b>Business Park Fund</b>	\$ 501,918	\$ 278,325	\$ 223,593
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The Business Park fund balance increased due to transfers in from the TIF District 2-1 Fund as a reimbursement for project costs incurred in prior years.

<b>TIF District 2-1 Fund</b>	\$ (243,061)	\$ (3,631)	\$ (239,430)
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The TIF District 2-1 fund balance decreased due to transfers out to the Business Park Fund discussed above.



**CITY OF PEQUOT LAKES, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2023**

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

**General Fund Budgetary Highlights**

The City's General Fund generated more revenue than budgeted by \$165,994. Expenditures were less than budgeted by \$188,062, excluding transfers to other funds. Budgeted expenditures were less than actual amounts as the result of capital outlay costs being less than anticipated.

**Proprietary Funds**

As the City completed the year, its business-type activities reported a combined net position of \$5,054,973. This is an increase of \$112,305 from the prior year. The following is a summary of the City's major proprietary funds:

Major Funds	Net Position December 31,		Increase (Decrease)
	2023	2022	
<b>Water Fund</b>	\$ 1,571,203	\$ 1,550,076	\$ 21,127

The Water Fund net position increased primarily due to an increase in investment income and utility charges in comparison to the prior year, resulting in overall revenues exceeding expenditures of the fund.

<b>Sewer Fund</b>	\$ 3,483,770	\$ 3,392,592	\$ 91,178
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The Sewer Fund net position also increased as a result of additional revenues from utility charges and investment earnings, similarly to the Water Fund.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

At the end of 2023, the City had \$13,657,384 net investment in a broad range of capital assets, including machinery and equipment, buildings, improvements and infrastructure. This amount represents a net decrease of \$741,027 (5.15 percent) from last year. Significant activity related to capital assets that occurred during the year consisted of the following:

- The purchase of a police vehicle for \$44,650
- Construction projects from the prior year were finalized and placed into service

**Table 4  
Capital Assets Net of Depreciation**

	Governmental Activities		Business-Type Activities		Totals	
	2023	2022	2023	2022	2023	2022
Land	\$ 2,105,125	\$ 2,105,125	\$ 156,969	\$ 156,969	\$ 2,262,094	\$ 2,262,094
Construction In Progress	486	628,614	48,482	48,482	48,968	677,096
Buildings and Improvements	1,747,095	1,710,375	33,404	37,312	1,780,499	1,747,687
Machinery and Equipment	1,450,547	1,560,471	970,760	1,054,212	2,421,307	2,614,683
Streets and Infrastructure	4,672,248	4,534,311	2,472,268	2,562,540	7,144,516	7,096,851
<b>Totals</b>	<b>\$ 9,975,501</b>	<b>\$ 10,538,896</b>	<b>\$ 3,681,883</b>	<b>\$ 3,859,515</b>	<b>\$ 13,657,384</b>	<b>\$ 14,398,411</b>

More detailed information about the City's capital assets is presented in the notes to the financial statements, starting on page 45.

**CITY OF PEQUOT LAKES, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2023**

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

**Debt**

At year-end, the City had \$2,770,666 in gross debt versus \$3,033,692 last year (a decrease of 8.67 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 47.

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

	Governmental Activities		Business-Type Activities		Totals	
	2023	2022	2023	2022	2023	2022
Bonds Payable	\$ 935,000	\$ 997,000	\$ 1,498,910	\$ 1,623,048	\$ 2,433,910	\$ 2,620,048
Equipment Certificates	156,000	176,000	-	-	156,000	176,000
Loans Payable	161,906	185,794	-	-	161,906	185,794
Financing Arrangements	18,850	51,850	-	-	18,850	51,850
<b>Totals</b>	<u>\$ 1,271,756</u>	<u>\$ 1,410,644</u>	<u>\$ 1,498,910</u>	<u>\$ 1,623,048</u>	<u>\$ 2,770,666</u>	<u>\$ 3,033,692</u>

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

In 2024, the City was approved for a DNR Grant to build a new picnic shelter, parking lot and bathroom in Trailside Park. Also in 2024, the City continues with the planning and design process of the upgrade to the Wastewater Ponds and Lift Stations. The City is also in the study phase of adding a Watermain Loop in the Heart of the Good Life. 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, 2023**

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Cash, Cash Equivalents, and Investments	\$ 6,707,293	\$ 2,950,692	\$ 9,657,985
Debt Reserve Restricted Cash	29,125	-	29,125
Property Taxes Receivable	153,430	-	153,430
Assessments Receivable	8,302	167	8,469
Accounts Receivable	9,422	143,792	153,214
Interest Receivable	20,993	-	20,993
Lease Receivable	6,142	-	6,142
Capital Assets Not Being Depreciated	2,105,611	205,451	2,311,062
Capital Assets Being Depreciated (Net)	7,869,890	3,476,432	11,346,322
Investment in Joint Venture	364,711	-	364,711
<b>TOTAL ASSETS</b>	<b>17,274,919</b>	<b>6,776,534</b>	<b>24,051,453</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
OPEB	5,363	386	5,749
Pensions	917,277	42,868	960,145
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>922,640</b>	<b>43,254</b>	<b>965,894</b>
<b>LIABILITIES</b>			
Accounts Payable	75,353	96,908	172,261
Salaries Payable	16,956	2,840	19,796
Accrued Interest Payable	14,230	15,302	29,532
Due to Other Governments	680	109	789
Unearned Revenue	80,275	-	80,275
Noncurrent Liabilities:			
Amount Due Within One Year	145,683	127,264	272,947
Amount Due After One Year	1,165,050	1,374,330	2,539,380
Net OPEB Liability	86,193	6,204	92,397
Net Pension Liability	802,753	101,970	904,723
<b>TOTAL LIABILITIES</b>	<b>2,387,173</b>	<b>1,724,927</b>	<b>4,112,100</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Leases	5,947	-	5,947
OPEB	63,252	4,552	67,804
Pensions	879,459	35,336	914,795
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>948,658</b>	<b>39,888</b>	<b>988,546</b>
<b>NET POSITION</b>			
Net Investment in Capital Assets	8,703,745	2,182,973	10,886,718
Restricted	215,963	-	215,963
Unrestricted	5,942,020	2,872,000	8,814,020
<b>TOTAL NET POSITION</b>	<b>\$ 14,861,728</b>	<b>\$ 5,054,973</b>	<b>\$ 19,916,701</b>

**CITY OF PEQUOT LAKES, MINNESOTA  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2023**

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	\$ 711,547	\$ 68,620	\$ 3,276	\$ -	\$ (639,651)	\$ -	\$ (639,651)
Public Safety	1,076,235	70,230	197,288	33,430	(775,287)	-	(775,287)
Public Works	923,550	559	-	-	(922,991)	-	(922,991)
Parks and Recreation	121,194	16,013	-	5,000	(100,181)	-	(100,181)
Economic Development	71,524	-	-	-	(71,524)	-	(71,524)
Cemetery	3,395	800	-	-	(2,595)	-	(2,595)
Debt Service	58,058	-	-	-	(58,058)	-	(58,058)
<b>Total Governmental Activities</b>	<b>2,965,503</b>	<b>156,222</b>	<b>200,564</b>	<b>38,430</b>	<b>(2,570,287)</b>	<b>-</b>	<b>(2,570,287)</b>
<b>Business-Type Activities:</b>							
Water	352,689	354,250	-	-	-	1,561	1,561
Sewer	347,577	397,163	-	-	-	49,586	49,586
<b>Total Business-Type Activities</b>	<b>700,266</b>	<b>751,413</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>51,147</b>	<b>51,147</b>
<b>TOTALS</b>	<b>\$ 3,665,769</b>	<b>\$ 907,635</b>	<b>\$ 200,564</b>	<b>\$ 38,430</b>	<b>(2,570,287)</b>	<b>51,147</b>	<b>(2,519,140)</b>
<b>General Revenues:</b>							
Taxes					2,241,849	-	2,241,849
Tax Increment					4,740	-	4,740
Franchise Taxes					36,646	-	36,646
Intergovernmental					73,812	12	73,824
Investment Earnings					137,465	51,975	189,440
Rental Income					8,472	-	8,472
Gain on Sale of Assets					5,500	-	5,500
Miscellaneous					102,022	9,171	111,193
<b>Total General Revenues, Capital Contributions, and Transfers</b>					<b>2,610,506</b>	<b>61,158</b>	<b>2,671,664</b>
<b>CHANGE IN NET POSITION</b>					<b>40,219</b>	<b>112,305</b>	<b>152,524</b>
<b>NET POSITION - BEGINNING OF YEAR</b>					<b>14,821,509</b>	<b>4,942,668</b>	<b>19,764,177</b>
<b>NET POSITION - END OF YEAR</b>					<b>\$ 14,861,728</b>	<b>\$ 5,054,973</b>	<b>\$ 19,916,701</b>

**CITY OF PEQUOT LAKES, MINNESOTA  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2023**

	General Fund	Highway 371 Project Fund	Capital Improvement Fund	Business Park Fund	TIF District 2- 1 Fund	Total Nonmajor Governmental	Total Governmental Funds
<b>ASSETS</b>							
Cash, Cash Equivalents, and Investments	\$ 2,082,469	\$ 4,103,986	\$ -	\$ 261,183	\$ -	\$ 259,655	\$ 6,707,293
Debt Reserve Restricted Cash	-	-	-	-	-	29,125	29,125
Property Taxes Receivable	143,821	2,384	-	-	-	7,225	153,430
Assessments Receivable	8,302	-	-	-	-	-	8,302
Accounts Receivable	9,422	-	-	-	-	-	9,422
Interest Receivable	20,993	-	-	-	-	-	20,993
Due from Other Funds	461,892	-	-	-	-	-	461,892
Lease Receivable	6,142	-	-	-	-	-	6,142
Advances to Other Funds	-	635,491	-	242,573	-	-	878,064
<b>TOTAL ASSETS</b>	<u>\$ 2,733,041</u>	<u>\$ 4,741,861</u>	<u>\$ -</u>	<u>\$ 503,756</u>	<u>\$ -</u>	<u>\$ 296,005</u>	<u>\$ 8,274,663</u>
<b>LIABILITIES</b>							
Accounts Payable	\$ 73,515	\$ -	\$ -	\$ 1,838	\$ -	\$ -	\$ 75,353
Salaries Payable	16,956	-	-	-	-	-	16,956
Due to Other Governments	680	-	-	-	-	-	680
Due to Other Funds	-	-	449,697	-	488	11,707	461,892
Unearned Revenue	50,000	-	-	-	-	30,275	80,275
Advances from Other Funds	-	-	635,491	-	242,573	-	878,064
Total Liabilities	141,151	-	1,085,188	1,838	243,061	41,982	1,513,220
<b>DEFERRED INFLOWS OF RESOURCES</b>							
Unavailable Revenue:							
Property Taxes	83,427	-	-	-	-	3,910	87,337
Special Assessments	8,302	-	-	-	-	-	8,302
Leases	5,947	-	-	-	-	-	5,947
Total Deferred Inflows of Resources	97,676	-	-	-	-	3,910	101,586

**CITY OF PEQUOT LAKES, MINNESOTA**  
**BALANCE SHEET (Continued)**  
**GOVERNMENTAL FUNDS**  
**DECEMBER 31, 2023**

	General Fund	Highway 371 Project Fund	Capital Improvement Fund	Business Park Fund	TIF District 2- 1 Fund	Total Nonmajor Governmental	Total Governmental Funds
<b>FUND BALANCES</b>							
Nonspendable	\$ 195	\$ 635,491	\$ -	\$ 242,573	\$ -	\$ -	\$ 878,259
Restricted	42,917	-	-	-	-	184,051	226,968
Committed	343,821	4,106,370	-	259,345	-	77,052	4,786,588
Assigned	175,744	-	-	-	-	-	175,744
Unassigned	<u>1,931,537</u>	<u>-</u>	<u>(1,085,188)</u>	<u>-</u>	<u>(243,061)</u>	<u>(10,990)</u>	<u>592,298</u>
Total Fund Balances	<u>2,494,214</u>	<u>4,741,861</u>	<u>(1,085,188)</u>	<u>501,918</u>	<u>(243,061)</u>	<u>250,113</u>	<u>6,659,857</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>	<u>\$ 2,733,041</u>	<u>\$ 4,741,861</u>	<u>\$ -</u>	<u>\$ 503,756</u>	<u>\$ -</u>	<u>\$ 296,005</u>	<u>\$ 8,274,663</u>

**CITY OF PEQUOT LAKES, MINNESOTA  
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET POSITION  
DECEMBER 31, 2023**

Total Fund Balances - Governmental Funds \$ 6,659,857

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	\$ 18,008,533	
Accumulated Depreciation	<u>(8,033,032)</u>	
Capital Assets (Net)		9,975,501

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	(1,271,756)	
Compensated Absences	<u>(38,977)</u>	
		(1,310,733)

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	(86,193)	
Deferred Outflows - OPEB	5,363	
Deferred Inflows - OPEB	<u>(63,252)</u>	
		(144,082)

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	(802,753)	
Deferred Outflows - Pensions	917,277	
Deferred Inflows - Pensions	<u>(879,459)</u>	
		(764,935)

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:

(14,230)

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

364,711

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	87,337	
Special Assessments	<u>8,302</u>	
		<u>95,639</u>

**TOTAL NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 14,861,728**



**CITY OF PEQUOT LAKES, MINNESOTA**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2023**

	General Fund	Highway 371 Project Fund	Capital Improvement Fund	Business Park Fund	TIF District 2- 1 Fund	Total Nonmajor Governmental	Total Governmental Funds
<b>REVENUES</b>							
Taxes	\$ 2,017,931	\$ 92,940	\$ -	\$ -	\$ -	\$ 111,690	\$ 2,222,561
Tax Increment	-	-	-	-	4,740	-	4,740
Franchise Taxes	36,646	-	-	-	-	-	36,646
Licenses, Permits, and Fees	19,642	-	-	-	-	-	19,642
Intergovernmental	252,495	-	-	-	-	33,430	285,925
Charges for Services	130,846	-	-	-	-	800	131,646
Fines	18,406	-	-	-	-	-	18,406
Investment Earnings (Losses)	57,719	68,739	-	8,431	2	2,241	137,132
Interest Earnings - Loans/Leases	333	15,925	-	9,485	-	-	25,743
Miscellaneous	74,946	-	-	-	-	7,166	82,112
<b>TOTAL REVENUES</b>	<u>2,608,964</u>	<u>177,604</u>	<u>-</u>	<u>17,916</u>	<u>4,742</u>	<u>155,327</u>	<u>2,964,553</u>
<b>EXPENDITURES</b>							
Current:							
General Government	609,188	-	1,328	-	-	923	611,439
Public Safety	910,475	-	-	-	-	557	911,032
Public Works	432,288	4,825	-	-	-	2,782	439,895
Parks and Recreation	38,591	-	-	-	-	-	38,591
Library	41,916	-	-	-	-	-	41,916
Economic Development	39,006	-	-	23,617	1,599	7,302	71,524
Cemetery	-	-	-	-	-	3,395	3,395
Capital Outlay	169,927	-	-	3,794	-	-	173,721
Debt Service:							
Principal	33,000	-	-	-	-	105,888	138,888
Interest and Other Charges	2,707	-	15,925	-	9,485	33,060	61,177
<b>TOTAL EXPENDITURES</b>	<u>2,277,098</u>	<u>4,825</u>	<u>17,253</u>	<u>27,411</u>	<u>11,084</u>	<u>153,907</u>	<u>2,491,578</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	331,866	172,779	(17,253)	(9,495)	(6,342)	1,420	472,975

**CITY OF PEQUOT LAKES, MINNESOTA**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES (Continued)**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2023**

	General Fund	Highway 371 Project Fund	Capital Improvement Fund	Business Park Fund	TIF District 2- 1 Fund	Total Nonmajor Governmental	Total Governmental Funds
<b>OTHER FINANCING SOURCES (USES)</b>							
Transfers In	\$ -	\$ -	\$ -	\$ 233,088	\$ -	\$ -	\$ 233,088
Transfers Out	-	-	-	-	(233,088)	-	(233,088)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>233,088</u>	<u>(233,088)</u>	<u>-</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCES</b>	331,866	172,779	(17,253)	223,593	(239,430)	1,420	472,975
<b>FUND BALANCES - BEGINNING</b>	<u>2,162,348</u>	<u>4,569,082</u>	<u>(1,067,935)</u>	<u>278,325</u>	<u>(3,631)</u>	<u>248,693</u>	<u>6,186,882</u>
<b>FUND BALANCES - ENDING</b>	<u>\$ 2,494,214</u>	<u>\$ 4,741,861</u>	<u>\$ (1,085,188)</u>	<u>\$ 501,918</u>	<u>\$ (243,061)</u>	<u>\$ 250,113</u>	<u>\$ 6,659,857</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, 2023**

Net Change in Fund Balances - Total Governmental Funds \$ 472,975

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	\$ 104,161	
Depreciation Expense	<u>(667,556)</u>	(563,395)

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		138,888
---------------------------	--	---------

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:

		3,119
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Under the modified accrual basis of accounting, certain revenues cannot be recognized until they are available to liquidate liabilities of the current period:

Property Taxes	19,288	
Other Receivables	<u>(5,000)</u>	14,288

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		18,413
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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		28,077
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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	1,693	
Net Pension Liability and Deferred Outflows/Inflows of Resources	<u>(73,839)</u>	<u>(72,146)</u>

<b>CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES</b>	<b><u>\$ 40,219</u></b>
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**CITY OF PEQUOT LAKES, MINNESOTA**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
**DECEMBER 31, 2023**

	Water Fund	Sewer Fund	Totals
<b>ASSETS</b>			
Current Assets			
Cash and Cash Equivalents	\$ 1,099,200	\$ 1,851,492	\$ 2,950,692
Assessments Receivable	101	66	167
Accounts Receivable	54,355	89,437	143,792
Total Current Assets	<u>1,153,656</u>	<u>1,940,995</u>	<u>3,094,651</u>
Noncurrent Assets			
Capital Assets Not Being Depreciated	-	205,451	205,451
Capital Assets Being Depreciated (Net)	1,567,151	1,909,281	3,476,432
Total Noncurrent Assets	<u>1,567,151</u>	<u>2,114,732</u>	<u>3,681,883</u>
<b>TOTAL ASSETS</b>	<u>2,720,807</u>	<u>4,055,727</u>	<u>6,776,534</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
OPEB	193	193	386
Pensions	21,434	21,434	42,868
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<u>21,627</u>	<u>21,627</u>	<u>43,254</u>
<b>LIABILITIES</b>			
Current Liabilities			
Accounts Payable	33,120	63,788	96,908
Salaries Payable	1,420	1,420	2,840
Due to Other Governments	109	-	109
Accrued Interest	11,299	4,003	15,302
Compensated Absences Due Within One Year	632	632	1,264
Bonds Due Within One Year	95,500	30,500	126,000
Total Current Liabilities	<u>142,080</u>	<u>100,343</u>	<u>242,423</u>
Noncurrent Liabilities			
Compensated Absences Due After One Year	710	710	1,420
Bonds Due After One Year	954,410	418,500	1,372,910
Net OPEB Liability	3,102	3,102	6,204
Net Pension Liability	50,985	50,985	101,970
Total Noncurrent Liabilities	<u>1,009,207</u>	<u>473,297</u>	<u>1,482,504</u>
<b>TOTAL LIABILITIES</b>	<u>1,151,287</u>	<u>573,640</u>	<u>1,724,927</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
OPEB	2,276	2,276	4,552
Pensions	17,668	17,668	35,336
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<u>19,944</u>	<u>19,944</u>	<u>39,888</u>
<b>NET POSITION</b>			
Net Investment in Capital Assets	517,241	1,665,732	2,182,973
Unrestricted	1,053,962	1,818,038	2,872,000
<b>TOTAL NET POSITION</b>	<u>\$ 1,571,203</u>	<u>\$ 3,483,770</u>	<u>\$ 5,054,973</u>

**CITY OF PEQUOT LAKES, MINNESOTA**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2023**

	Water Fund	Sewer Fund	Totals
<b>OPERATING REVENUES</b>			
Charges for Services	\$ 342,824	\$ 396,016	\$ 738,840
<b>OPERATING EXPENSES</b>			
Wages and Benefits	136,247	133,042	269,289
Materials and Supplies	15,382	12,445	27,827
Repairs and Maintenance	4,358	30,288	34,646
Professional Services	29,939	32,069	62,008
Insurance	7,315	9,234	16,549
Utilities	21,103	20,962	42,065
Miscellaneous	16,799	8,337	25,136
Depreciation	93,856	91,540	185,396
<b>TOTAL OPERATING EXPENSES</b>	<u>324,999</u>	<u>337,917</u>	<u>662,916</u>
<b>NET OPERATING INCOME</b>	17,825	58,099	75,924
<b>NONOPERATING INCOME (EXPENSE)</b>			
Intergovernmental	6	6	12
Investment Earnings (Losses)	19,560	32,415	51,975
Miscellaneous	11,426	10,318	21,744
Interest and Other Charges	(27,690)	(9,660)	(37,350)
<b>NET NONOPERATING INCOME (EXPENSE)</b>	<u>3,302</u>	<u>33,079</u>	<u>36,381</u>
<b>CHANGE IN NET POSITION</b>	21,127	91,178	112,305
<b>NET POSITION - BEGINNING OF YEAR</b>	<u>1,550,076</u>	<u>3,392,592</u>	<u>4,942,668</u>
<b>NET POSITION - END OF YEAR</b>	<u>\$ 1,571,203</u>	<u>\$ 3,483,770</u>	<u>\$ 5,054,973</u>

**CITY OF PEQUOT LAKES, MINNESOTA  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2023**

	Water Fund	Sewer Fund	Totals
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash Received from Customers	\$ 341,199	\$ 394,878	\$ 736,077
Cash Paid to Suppliers	(91,640)	(112,179)	(203,819)
Cash Paid to Employees	(112,648)	(109,443)	(222,091)
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	136,911	173,256	310,167
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Taxes and Intergovernmental	1,315	1,465	2,780
Other Receipts from Customers	11,426	10,318	21,744
<b>NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES</b>	12,741	11,783	24,524
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Purchases of Capital Assets	-	(7,764)	(7,764)
Payments on Bond Principal	(94,500)	(29,500)	(124,000)
Cash Paid for Interest	(28,634)	(9,924)	(38,558)
<b>NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	(123,134)	(47,188)	(170,322)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest Earnings (Losses)	19,560	32,415	51,975
Net Change in Cash and Cash Equivalents	46,078	170,266	216,344
Cash and Cash Equivalents - Beginning of Year	1,053,122	1,681,226	2,734,348
Cash and Cash Equivalents - End of Year	<u>\$ 1,099,200</u>	<u>\$ 1,851,492</u>	<u>\$ 2,950,692</u>

**CITY OF PEQUOT LAKES, MINNESOTA**  
**STATEMENT OF CASH FLOWS (Continued)**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2023**

	Water Fund	Sewer Fund	Totals
<b>RECONCILIATION OF NET OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>			
Net Operating Income	\$ 17,825	\$ 58,099	\$ 75,924
Adjustments to Reconcile Net Operating Income to Net Cash Provided (Used) by Operating Activities:			
Depreciation Expense	93,856	91,540	185,396
Changes in Assets, Liabilities, and Deferrals:			
Accounts Receivable	(1,624)	(1,028)	(2,652)
Deferred Outflows of Resources - OPEB	32	32	64
Deferred Outflows of Resources - Pensions	(8,913)	(8,913)	(17,826)
Accounts Payable	3,256	1,156	4,412
Salaries Payable	(22)	(22)	(44)
Due to Other Governments	(1)	(110)	(111)
Compensated Absences (Current)	(233)	(233)	(466)
Net OPEB Liability	(227)	(227)	(454)
Net Pension Liability	16,420	16,420	32,840
Deferred Inflows of Resources - OPEB	134	134	268
Deferred Inflows of Resources - Pensions	16,659	16,659	33,318
Compensated Absences	(251)	(251)	(502)
 <b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	 <b>\$ 136,911</b>	 <b>\$ 173,256</b>	 <b>\$ 310,167</b>

**CITY OF PEQUOT LAKES, MINNESOTA  
STATEMENT OF FIDUCIARY NET POSITION  
DECEMBER 31, 2023**

	Custodial Fund
<b>ASSETS</b>	
Cash and Cash Equivalents	\$ 113,184
Prepays	9,807
Capital Assets Being Depreciated (Net)	323,081
Net Pension Asset	426,178
<b>TOTAL ASSETS</b>	<b>872,250</b>
 <b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Pensions	171,348
 <b>LIABILITIES</b>	
Accounts Payable	12,371
 <b>DEFERRED INFLOWS OF RESOURCES</b>	
Pensions	257,754
 <b>FIDUCIARY NET POSITION</b>	
Fiduciary Net Position - Held for Others	\$ 773,473



**CITY OF PEQUOT LAKES, MINNESOTA  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
FOR THE YEAR ENDED DECEMBER 31, 2023**

	<u>Custodial Fund</u>
<b>ADDITIONS</b>	
Intergovernmental	\$ 127,565
Charges for Services	285,278
Investment Income (Loss)	941
Gain on Sale of Assets	9,850
Miscellaneous	30,210
<b>TOTAL ADDITIONS</b>	453,844
 <b>DEDUCTIONS</b>	
Salaries and Wages	37,473
Training Costs	32,220
Supplies & Gear	50,126
Utilities	3,640
Insurance	37,783
Professional Services	38,219
Repairs and Maintenance	6,594
Fuel	7,268
Other Expenses	6,420
Depreciation Expense	19,996
Pension Contributions & Expenses	96,145
Financing Payments to City of Pequot Lakes	33,430
<b>TOTAL DEDUCTIONS</b>	369,314
 <b>CHANGE IN FIDUCIARY NET POSITION</b>	 84,530
 <b>FIDUCIARY NET POSITION - BEGINNING OF YEAR</b>	 688,943
 <b>FIDUCIARY NET POSITION - END OF YEAR</b>	 \$ 773,473

**CITY OF PEQUOT LAKES, MINNESOTA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2023**

**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, 2023**

**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, 2023, the City of Pequot Lakes’ contribution to the Fire District totaled \$117,249. 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.

	2023
Joint Venture Equity Investment at January 1st	\$ 336,634
Change in Equity Investment	28,077
Joint Venture Equity Investment at December 31st	\$ 364,711

During the year ended December 31, 2023, the Fire District 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 \$33,430 for 2023. These contributions are included as intergovernmental revenue in the City’s nonmajor debt service funds. Additionally, the City recognized \$5,000 of revenues from the District as charges for serving as the fiscal host of the District’s finances throughout 2023.

The Fire District has issued separate audited financial statements for the year ended December 31, 2023.

**1.B. BASIS OF PRESENTATION**

**Government-wide Financial Statements**

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

**Fund Financial Statements**

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

**CITY OF PEQUOT LAKES, MINNESOTA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2023**

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

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

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

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

The City reports the following major governmental funds:

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

The *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 *TIF District 2-1 Fund* is a debt service fund used to account for the accumulation of financial resources for the payment of interest and principal on general long-term debt of the City. Tax levies and special assessments are used for the payment of principal and interest on the City's indebtedness.

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, 2023**

**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 BUDGETARY INFORMATION**

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General and Business Park Funds. The appropriated budgets are prepared by fund, function, and department. The City of Pequot Lakes’ department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the Council. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the department level.

Appropriations in all budgeted funds lapse at the end of the fiscal year. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the appropriation, is not employed by the City because it is at present not considered necessary to assure effective budgetary control or to facilitate effective cash management.

**CITY OF PEQUOT LAKES, MINNESOTA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2023**

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

**1.E. USE OF ESTIMATES**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows, liabilities, and deferred inflows, and disclosure of contingencies related to these balances at the date of the financial statements. Estimates also affect reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

**1.F. 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.E. for details of interfund transactions, including receivables and payables at year-end.

**Receivables**

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

**CITY OF PEQUOT LAKES, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2023**

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

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

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.

**Leases Receivable**

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

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

**Prepaid Expenditures/Expenses**

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

**Capital Assets**

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

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

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

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

**Government-wide Statements**

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

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

**CITY OF PEQUOT LAKES, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2023**

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

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

Fund Financial Statements

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

**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).



**CITY OF PEQUOT LAKES, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2023**

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

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

PERA

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA. 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 and special assessments as deferred inflows of resources in the governmental fund financial statements, in accordance with the modified accrual basis of accounting. Accordingly, such amounts are deferred and recognized as inflows of resources in the period that they become available. In addition, the City reports deferred inflows of resources in the government-wide and proprietary fund Statements of Net Position in relation to the activity of pension funds and OPEB plan in which City employees participate. Finally, the City also reports deferred inflows of resources in the governmental funds and government-wide financial statements in relation to the leasing activity, as previously discussed.

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

**Equity Classifications**

Government-Wide Statements

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

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

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

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

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

**CITY OF PEQUOT LAKES, MINNESOTA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2023**

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

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

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, 2023 consist of advances made to other funds, as well as net lease receivable balances.

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.F. for additional disclosures.

Proprietary Fund Financial Statements

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

**1.G. 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.

**CITY OF PEQUOT LAKES, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2023**

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

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

**Special Assessments**

Special assessments are levied against benefited properties for the cost or a portion of the cost of special assessment improvement projects in accordance with State Statutes. These assessments are collectible by the City over a term of years usually consistent with the term of the related bond issue. Collection of annual installments (including interest) is handled by the County Auditor in the same manner as property taxes. Property owners are allowed to (and often do) prepay future installments without interest or prepayment penalties.

Within the government-wide financial statements, the City recognizes special assessment revenue in the period that the assessment roll was adopted by the City Council. Uncollectible special assessments are not material and have not been reported.

Within the governmental fund financial statements, the revenue from special assessments is recognized by the City when it becomes measurable and available to finance expenditures of the current fiscal period. In practice, current and delinquent special assessments received by the City are recognized as revenue for the current year. Special assessments are collected by the County and remitted by December 31<sup>st</sup> (remitted to the City the following January) and are also recognized as revenue for the current year. All remaining delinquent, deferred, and special deferred assessments receivable in governmental funds are completely offset by deferred inflows of resources.

**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.E.

**CITY OF PEQUOT LAKES, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2023**

**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, 2023, 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, 2023**

**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 State of America. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

Investment balances at December 31, 2023 are as follows:

Investment Type	S & P's Rating	Moody's Rating	Fair Value Level	Fair Value	Investment Maturities (in Years)		
					Less Than 1	1-5	6-10
Money Market Funds	N/R	N/R	Level 1	\$ 317,838	\$ 317,838	\$ -	\$ -
U.S. Treasury Notes	N/R	AAA	Level 2	74,267	74,267	-	-
Brokered Certificates of Deposit	N/R	N/R	Level 2	1,055,488	875,520	179,968	-
Municipal Bonds	N/R to AAA	N/R to AAA	Level 2	536,128	99,307	436,821	-
Totals				<u>\$ 1,983,721</u>	<u>\$ 1,366,932</u>	<u>\$ 616,789</u>	<u>\$ -</u>

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

- Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Ratings are provided by various credit rating agencies and where applicable, indicate associated credit risk as indicated in the table above. Minnesota Statutes limit the City's investments.
- Custodial credit risk is the risk that in the event of a failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The City does not have a formal investment policy to address custodial credit risk but typically limits its exposure by purchasing insured or registered investments.
- Concentration Risk is the risk associated with investing a significant portion of the City's investments (considered 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, 2023, 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.

**CITY OF PEQUOT LAKES, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2023**

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

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

**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		\$	7,806,573
Certificate of Deposit			10,000
Investments (See Investments Section)			<u>1,983,721</u>
 Total		 \$	 <u>9,800,294</u>
 <i>City - Government-Wide</i>			
Cash, Cash Equivalents, and Investments		\$	9,657,985
Debt Reserve Restricted Cash			29,125
 <i>Fiduciary Fund</i>			
Cash and Cash Equivalents			<u>113,184</u>
 Total		 \$	 <u>9,800,294</u>

**2.B.    LEASE RECEIVABLES**

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

*Governmental Activities*

Description	Original Amount	Total Annual Lease Payment	Interest Rate(s)	Maturity Date	Remaining Amount
Trailside Building Lease	\$ 15,109	\$ 9,300	3.25%	8/31/2024	\$ <u>6,142</u>

During the year ended December 31, 2023, the City recognized revenues from leasing activities under the arrangement above within governmental activities in the amount of \$9,254.

**CITY OF PEQUOT LAKES, MINNESOTA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2023**

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

**2.C.    CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2023 is as follows:

	<u>Balance at</u> 01/01/23	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>Balance at</u> 12/31/23
<i>Governmental Activities:</i>					
Capital Assets not Being Depreciated					
Land	\$ 2,105,125	\$ -	\$ -	\$ -	\$ 2,105,125
Construction In Progress	<u>628,614</u>	<u>3,794</u>	<u>-</u>	<u>(631,922)</u>	<u>486</u>
Total Capital Assets not Being Depreciated	2,733,739	3,794	-	(631,922)	2,105,611
Capital Assets Being Depreciated					
Buildings and Improvements	2,826,389	-	-	154,978	2,981,367
Machinery, Furniture and Equipment	3,785,768	100,367	(177,436)	-	3,708,699
Infrastructure	<u>8,735,912</u>	<u>-</u>	<u>-</u>	<u>476,944</u>	<u>9,212,856</u>
Total Capital Assets Being Depreciated	15,348,069	100,367	(177,436)	631,922	15,902,922
Less: Accumulated Depreciation					
Buildings and Improvements	(1,116,014)	(118,258)	-	-	(1,234,272)
Machinery, Furniture and Equipment	(2,225,297)	(210,291)	177,436	-	(2,258,152)
Infrastructure	<u>(4,201,601)</u>	<u>(339,007)</u>	<u>-</u>	<u>-</u>	<u>(4,540,608)</u>
Total Accumulated Depreciation	<u>(7,542,912)</u>	<u>(667,556)</u>	<u>177,436</u>	<u>-</u>	<u>(8,033,032)</u>
Total Capital Assets Being Depreciated, Net	<u>7,805,157</u>	<u>(567,189)</u>	<u>-</u>	<u>631,922</u>	<u>7,869,890</u>
Capital Assets, Net	<u>\$ 10,538,896</u>	<u>\$ (563,395)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,975,501</u>

Depreciation is charged to governmental activities as follows:

General Government	\$ 113,033
Public Safety	109,529
Public Works	409,253
Parks and Recreation	<u>35,741</u>
Total Depreciation Expense	<u>\$ 667,556</u>

**CITY OF PEQUOT LAKES, MINNESOTA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2023**

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

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

	Balance at 01/01/23	Additions	Disposals	Transfers	Balance at 12/31/23
<i>Business-Type Activities:</i>					
Capital Assets not Being Depreciated					
Land	\$ 156,969	\$ -	\$ -	\$ -	\$ 156,969
Construction In Progress	48,482	-	-	-	48,482
Total Capital Assets not Being Depreciated	205,451	-	-	-	205,451
Capital Assets Being Depreciated					
Buildings and Improvements	1,125,329	-	-	-	1,125,329
Machinery and Equipment	3,440,297	7,764	(2,000)	-	3,446,061
Infrastructure	2,999,087	-	-	-	2,999,087
Total Capital Assets Being Depreciated	7,564,713	7,764	(2,000)	-	7,570,477
Less: Accumulated Depreciation					
Buildings and Improvements	(1,088,017)	(3,908)	-	-	(1,091,925)
Machinery and Equipment	(2,386,084)	(91,216)	2,000	-	(2,475,300)
Infrastructure	(436,548)	(90,272)	-	-	(526,820)
Total Accumulated Depreciation	(3,910,649)	(185,396)	2,000	-	(4,094,045)
Total Capital Assets Being Depreciated, Net	3,654,064	(177,632)	-	-	3,476,432
Capital Assets, Net	<u>\$ 3,859,515</u>	<u>\$ (177,632)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,681,883</u>



**CITY OF PEQUOT LAKES, MINNESOTA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2023**

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

**2.D.    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, 2023, 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>156,000</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>935,000</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>18,850</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>161,906</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	\$ 600,000
04/20	1,040,000	\$25,000 - \$78,000	2.14%	02/36	<u>898,000</u>
					\$ <u>1,498,000</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, 2023**

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

**2.D.    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, 2023:

Type of Debt	Balance 01/01/23	Additions	Deductions	Balance 12/31/23	Amounts Due Within One Year
<i>Governmental Activities:</i>					
General Obligation Certificates	\$ 176,000	\$ -	\$ (20,000)	\$ 156,000	\$ 21,000
General Obligation Bonds	997,000	-	(62,000)	935,000	63,000
Financing Arrangement	51,850	-	(33,000)	18,850	18,850
Loan Payable	185,794	-	(23,888)	161,906	24,724
Compensated Absences	57,390	-	(18,413)	38,977	18,109
<b>Total</b>	<b>\$ 1,468,034</b>	<b>\$ -</b>	<b>\$ (157,301)</b>	<b>\$ 1,310,733</b>	<b>\$ 145,683</b>
<i>Business-Type Activities:</i>					
General Obligation Bonds	\$ 1,622,000	\$ -	\$ (124,000)	\$ 1,498,000	\$ 126,000
Unamortized Bond Premium	1,048	-	(138)	910	-
Compensated Absences	3,652	-	(968)	2,684	1,264
<b>Total</b>	<b>\$ 1,626,700</b>	<b>\$ -</b>	<b>\$ (125,106)</b>	<b>\$ 1,501,594</b>	<b>\$ 127,264</b>

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, 2023, capital assets acquired under financing arrangements include the City Hall building with an original cost of \$1,056,200. There was accumulated depreciation of \$735,568 on the City Hall building as of December 31, 2023.

**CITY OF PEQUOT LAKES, MINNESOTA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2023**

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

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

**Annual Debt Service Requirements**

At December 31, 2023, 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
2024	\$ 18,850	\$ 368	\$ 19,218	\$ 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	-	-	-	28,372	2,019	30,391
2029	-	-	-	29,322	1,026	30,348
<b>Totals</b>	<b>\$ 18,850</b>	<b>\$ 368</b>	<b>\$ 19,218</b>	<b>\$ 161,906</b>	<b>\$ 20,397</b>	<b>\$ 182,303</b>

Years Ending December 31,	Governmental Activities					
	General Obligation Certificates			General Obligation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2024	\$ 21,000	\$ 3,492	\$ 24,492	\$ 63,000	\$ 19,335	\$ 82,335
2025	21,000	2,988	23,988	65,000	17,966	82,966
2026	22,000	2,472	24,472	66,000	16,564	82,564
2027	22,000	1,944	23,944	67,000	15,141	82,141
2028	23,000	1,404	24,404	69,000	13,686	82,686
2029-2033	47,000	1,140	48,140	366,000	45,476	411,476
2034-2036	-	-	-	239,000	7,736	246,736
<b>Totals</b>	<b>\$ 156,000</b>	<b>\$ 13,440</b>	<b>\$ 169,440</b>	<b>\$ 935,000</b>	<b>\$ 135,904</b>	<b>\$ 1,070,904</b>

Years Ending December 31,	Business-Type Activities		
	General Obligation Bonds		
	Principal	Interest	Total
2024	\$ 126,000	\$ 35,294	\$ 161,294
2025	132,000	32,358	164,358
2026	133,000	29,132	162,132
2027	140,000	25,587	165,587
2028	141,000	21,898	162,898
2029-2033	596,000	55,258	651,258
2034-2036	230,000	7,447	237,447
<b>Totals</b>	<b>\$ 1,498,000</b>	<b>\$ 206,974</b>	<b>\$ 1,704,974</b>

**CITY OF PEQUOT LAKES, MINNESOTA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2023**

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

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

Interest and other fiscal charges total \$69,437 in the Statement of Activities (included in Debt Service, Water, and Sewer lines). Interest and other fiscal charges total \$35,756 for the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds (included in the line Interest and Other Charges) and \$36,800 in the Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds (included in the line Interest and Other Charges).

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

Operating transfers consist of the following for the year ended December 31, 2023:

Major Funds	Transfers Out	Transfers In Major Funds Business Park
TIF District 2-1	\$    233,088	\$    233,088

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 TIF District 2-1	Highway 371 Project Business Park	\$    635,491	Finance capital improvements
		242,573	Finance TIF developments
	Long-Term Balances Subtotal	878,064	
Short-Term Balances			
Due From Fund	Due to Fund		
Capital Improvement	General	449,697	Eliminate negative cash
Trailside Estates	General	2,579	Eliminate negative cash
2022A GO Equipment Certificates	General	1,826	Eliminate negative cash
TIF District 2-1	General	488	Eliminate negative cash
TIF District 2-2	General	7,302	Eliminate negative cash
	Short-Term Balances Subtotal	461,892	
Total Interfund Balances		\$    1,339,956	

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

**CITY OF PEQUOT LAKES, MINNESOTA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2023**

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

**2.F.    FUND EQUITY**

At December 31, 2023, governmental fund equity consists of the following:

	<u>Nonspendable</u>	<u>Restricted</u>	<u>Committed</u>	<u>Assigned</u>	<u>Unassigned</u>
<b>General Fund</b>					
Nonspendable - Lease Receivable (Net)	\$ 195	\$ -	\$ -	\$ -	\$ -
Restricted for Parks	-	15,237	-	-	-
Restricted for Police (from Forfeitures)	-	27,680	-	-	-
Committed for Library	-	-	99,704	-	-
Committed for Water Tower	-	-	690	-	-
Committed for Capital Outlay	-	-	243,427	-	-
Assigned for American Rescue Plan Act Expenditures	-	-	-	175,744	-
Unassigned	-	-	-	-	1,931,537
<b>Total General Fund Balance</b>	<b><u>\$ 195</u></b>	<b><u>\$ 42,917</u></b>	<b><u>\$ 343,821</u></b>	<b><u>\$ 175,744</u></b>	<b><u>\$ 1,931,537</u></b>
<b>Highway 371 Project Fund</b>					
Nonspendable - Advances to Other Funds	\$ 635,491	\$ -	\$ -	\$ -	\$ -
Committed for Road Turnback Projects	-	-	4,106,370	-	-
<b>Total Highway 371 Project Fund Balance</b>	<b><u>\$ 635,491</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 4,106,370</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>
<b>Capital Improvement Fund</b>					
Unassigned	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,085,188)</u>
<b>Business Park Fund</b>					
Nonspendable - Advances to Other Funds	\$ 242,573	\$ -	\$ -	\$ -	\$ -
Committed for Business Park	-	-	259,345	-	-
<b>Total Business Park Fund Balance</b>	<b><u>\$ 242,573</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 259,345</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>
<b>TIF District 2-1 Fund</b>					
Unassigned	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (243,061)</u>
<b>Nonmajor Governmental Funds</b>					
Restricted for Debt Service	\$ -	\$ 184,051	\$ -	\$ -	\$ -
Committed for Cemetery Perpetual Care	-	-	77,052	-	-
Unassigned	-	-	-	-	(10,990)
<b>Total Nonmajor Governmental Funds Balance</b>	<b><u>\$ -</u></b>	<b><u>\$ 184,051</u></b>	<b><u>\$ 77,052</u></b>	<b><u>\$ -</u></b>	<b><u>\$ (10,990)</u></b>

Deficit fund balances in individual nonmajor funds at December 31, 2023 consist of the following:

<u>Nonmajor Governmental Funds</u>	<u>Fund Deficit</u>
Trailside Estates Fund	<u>\$ (2,579)</u>
2022A GO Equipment Certificates Fund	<u>\$ (1,109)</u>
TIF District 2-2 Fund	<u>\$ (7,302)</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  
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**NOTE 3    DEFINED BENEFIT PENSION PLANS - STATEWIDE**

**Plan Description**

The City participates in the following cost-sharing multiple-employer defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA's defined benefit pension plans are established and administered in accordance with *Minnesota Statutes*, Chapters 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

General Employees Retirement Plan

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

Public Employees Police and Fire Plan

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

**Benefits Provided**

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

General Employees Plan Benefits

General Employees Plan benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for Coordinated members is 1.20 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. In 2023, legislation repealed the statute delaying increases for members retiring before full retirement age.

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.

**CITY OF PEQUOT LAKES, MINNESOTA  
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**NOTE 3    DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)**

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.

In 2023, the legislature allocated funding for a one-time lump-sum payment to General Employee and Police and Fire Plan benefit recipients. Eligibility criteria and the payment amount is specified in statute. The one-time payment is non-compounding towards future benefits.

**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 2023, 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, 2023 were \$45,744. The City’s contributions were equal to the required contributions as set by State Statute.

Police and Fire Fund Contributions

Police and Fire Plan members were required to contribute 11.80 percent of their annual covered salary in fiscal year 2023, 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, 2023 were \$65,132. 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, 2023, the City reported a liability of \$397,024 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 \$10,951.

The net pension liability was measured as of June 30, 2023, 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, 2022 through June 30, 2023, relative to the total employer contributions received from all of PERA’s participating employers. The City’s proportionate share was 0.0071 percent at the end of the measurement period and 0.0058 percent for the beginning of the period.

City’s proportionate share of the net pension liability:	\$397,024
State of Minnesota’s proportionate share of the net pension liability associated with the City	<u>10,951</u>
Total	<u>\$407,975</u>

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

For the year ended December 31, 2023, the City recognized pension expense of \$36,197 for its proportionate share of the General Employees Plan’s pension expense. In addition, the City recognized an additional \$49 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota’s contribution of \$16 million to the General Employees Fund.

At December 31, 2023, 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	\$ 12,465	\$ 2,311
Changes in Actuarial Assumption	54,243	108,821
Difference Between Projected and Actual Investment Earnings	-	22,182
Changes in Proportionate Share	77,220	4,271
Contributions Paid to PERA Subsequent to the Measurement Date	20,836	-
Total City Deferred Outflows/Inflows	\$ 164,764	\$ 137,585

The \$20,836 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, 2024.

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
2024	\$ 23,894
2025	\$ (34,635)
2026	\$ 25,698
2027	\$ (8,614)

**Police and Fire Fund Pension Costs**

At December 31, 2023, the City reported a liability of \$507,700 for its proportionate share of the Police and Fire Fund’s net pension liability. The net pension liability was measured as of June 30, 2023, 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, 2022 through June 30, 2023, relative to the total employer contributions received from all of PERA’s participating employers. The City’s proportionate share was 0.0294 percent at the end of the measurement period and 0.0292 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, 2023. 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, 2022. 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  
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**NOTE 3 DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)**

City’s proportionate share of the net pension liability:	\$507,700
State of Minnesota’s proportionate share of the net pension liability associated with the City	<u>20,461</u>
Total	<u>\$528,161</u>

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 June 30, 2023, the City recognized pension expense of negative \$11,858 for its proportionate share of the Police and Fire Plan’s pension expense. The City recognized negative \$1,232 as grant revenue and pension expense 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 \$2,648 for the year ended December 31, 2023 as revenue and an offsetting reduction of net pension liability for its proportionate share of the State of Minnesota’s on-behalf contributions to the Police and Fire Fund.

At December 31, 2023, 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	\$ 141,086	\$ -
Changes in Actuarial Assumption	598,749	714,044
Difference Between Projected and Actual Investment Earnings	-	40,100
Changes in Proportionate Share	18,640	23,066
Contributions Paid to PERA Subsequent to the Measurement Date	<u>36,906</u>	<u>-</u>
Total City Deferred Outflows/Inflows	<u>\$ 795,381</u>	<u>\$ 777,210</u>

The \$36,906 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, 2024.

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>
2024	\$ 17,841
2025	\$ (3,888)
2026	\$ 127,589
2027	\$ (35,764)
2028	\$ (124,513)

**CITY OF PEQUOT LAKES, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2023**

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

**Long-Term Expected Return on Investment**

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

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, 2023 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 7.00 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 7.00 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 Police and Fire Plan. Benefit increases after retirement are assumed to be 1.25 percent for the General Employees Plan and 1.00 percent for the Police and Fire Plan.

Salary growth assumptions in the General Employees Plan range in annual increments from 10.25 percent after one year of service to 3.00 percent after 27 years of service. In the Police and Fire Plan, salary growth assumptions range from 11.75 percent after one year of service to 3.00 percent after 24 years of service.

Mortality rates for the General Employees Plan are based on the Pub-2010 General Employee Mortality Table. Mortality rates for the Police and Fire Plan 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 2022. The assumption changes were adopted by the Board and became effective with the July 1, 2023 actuarial valuation. The most recent four-year experience study for the Police and Fire Plan was completed in 2020 and was adopted by the Board and became effective with the July 1, 2021 actuarial valuation.

The following changes in actuarial assumptions and plan provisions occurred in 2023:

**General Employees Fund**

Changes in Actuarial Assumptions:

- The investment return assumption and single discount rate were changed from 6.50 percent to 7.00 percent.

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

Changes in Plan Provisions

- An additional one-time direct State aid contribution of \$170.1 million will be contributed to the Plan on October 1, 2023.
- The vesting period of those hired after June 30, 2010 was changed from five years of allowable service to three years of allowable service.
- The benefit increase delay for early retirements on or after January 1, 2024 was eliminated.
- A one-time, non-compounding benefit increase of 2.50 percent minus the actual 2024 adjustment will be payable in a lump sum for calendar year 2024 by March 31, 2024.

Police and Fire Fund

Changes in Actuarial Assumptions:

- The investment return assumption was changed from 6.50 percent to 7.00 percent.
- The single discount rate changed from 5.40 percent to 7.00 percent.

Changes in Plan Provisions:

- Additional one-time direct State aid contribution of \$19.4 million will be contributed to the Plan on October 1, 2023.
- Vesting requirement for new hires after June 30, 2014 was changed from a graded 20-year vesting schedule to a graded 10-year vesting schedule, with 50 percent vesting after five years, increasing incrementally to 100 percent after 10 years.
- A one-time, non-compounding benefit increase of 3.00 percent will be payable in a lump sum for calendar year 2024 by March 31, 2024.
- Psychological treatment is required effective July 1, 2023, prior to approval for a duty disability benefit for a psychological condition relating to the member’s occupation.
- The total and permanent duty disability benefit was increased, effective July 1, 2023.

**Discount Rate**

The discount rate used to measure the total pension liability in 2023 was 7.00 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net positions of the General Employees Fund and the Police and Fire Fund were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**Pension Liability Sensitivity**

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

Sensitivity Analysis					
<i>Net Pension Liability (Asset) at Different Discount Rates</i>					
	General Employees Fund			Police and Fire Fund	
1% Increase in Discount Rate	8.00%	\$	145,868	8.00%	\$ 96,931
Current Discount Rate	7.00%	\$	397,024	7.00%	\$ 507,699
1% Decrease in Discount Rate	6.00%	\$	702,367	6.00%	\$ 1,007,337

**CITY OF PEQUOT LAKES, MINNESOTA  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**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 2023 were:

Contribution Amount		Percentage of Covered Payroll		Required
Employee	Employer	Employee	Employer	Rate
\$ 786	\$ 786	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**  
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**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, 2023, 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, 2023, the City reported a net OPEB liability of \$92,397 for the City’s plan. The net OPEB liability was measured as of January 1, 2023, based on an actuarial valuation as of January 1, 2022.

For the year ended December 31, 2023, the City recognized OPEB expense of negative \$1,716. At December 31, 2023, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in Actuarial Assumption Difference Between Projected and Actual Investment Earnings	\$ 5,749	\$ 20,230
	-	47,574
Total City Deferred Outflows/Inflows	\$ 5,749	\$ 67,804

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, 2024.

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
2024	\$ (11,652)
2025	\$ (11,652)
2026	\$ (11,652)
2027	\$ (11,652)
2028	\$ (11,023)
2029-2030	\$ (4,424)

**CITY OF PEQUOT LAKES, MINNESOTA  
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**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, 2023:

Changes in Total OPEB Liability (TOL)	
Balance at January 1st	\$ 99,175
Service Cost	7,799
Interest Cost	2,138
Changes in Assumptions	(16,615)
Benefit Payments	<u>(100)</u>
Balance at December 31st	<u>\$ 92,397</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, 2023
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	4.00%
20-Year Municipal Bond Yield	4.00%
Inflation	2.50%
Salary Increases	Service graded table
Medical Trend Rate	6.25% as of January 1, 2023 grading to 5.00% over 5 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  
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**NOTE 5 POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (Continued)**

Changes to actuarial assumptions since the prior valuation:

- The discount rate was changed from 2.00 percent to 4.00 percent.
- The inflation rate was changed from 2.00 percent to 2.50 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	5.00%	\$83,643
Current Discount Rate	4.00%	\$92,397
1% Decrease in Discount Rate	3.00%	\$101,819

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	\$108,767
Current Healthcare Trend Rates	\$92,397
1% Decrease in Healthcare Trend Rates	\$78,595

**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**  
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**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, 2023, taxes abated by the City under this agreement total \$20,890.

**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. CONTINGENCIES**

During the year ended December 31, 2023, the City received notice of threatened litigation from a former employee, seeking post-employment benefits from the City. Should the employee's asserted claim be successful, the City would be required to provide health insurance coverage and payment of the City's contribution for said employee and their dependents' health coverage until the employee reaches age 65. The likelihood of a favorable outcome for the City could not be reasonably determined as of the issuance of these financial statements.

**6.E. SUBSEQUENT EVENTS**

Subsequent to year end but prior to the issuance of these financial statements, the City approved various construction costs in the amount of \$874,795.

Subsequent to year end but prior to the issuance of these financial statements, the City was awarded the Small Cities Development Program Grant in the amount of \$600,000.

Subsequent to year end but prior to the issuance of these financial statements, the City sold two lots in the amount of \$360,000.



**REQUIRED SUPPLEMENTARY  
INFORMATION**

**CITY OF PEQUOT LAKES, MINNESOTA  
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2023**

	Budget Amounts- Original and Final	Actual Amounts Budgetary Basis	Variance with Budget Over (Under)
<b>REVENUES</b>			
<b>Taxes</b>			
Property Taxes	\$ 2,045,230	\$ 2,017,931	\$ (27,299)
Franchise Taxes	30,000	36,646	6,646
<b>Total Taxes</b>	<u>2,075,230</u>	<u>2,054,577</u>	<u>(20,653)</u>
<b>Licenses and Permits</b>	17,630	19,642	2,012
<b>Intergovernmental Revenue</b>			
Federal Revenue			
Coronavirus Relief Funds	5,000	3,276	(1,724)
State Revenue			
Local Government Aid	72,700	72,725	25
Market Value Credit	-	2,283	2,283
Police and Fire Aid	60,000	161,616	101,616
Other State Grants and Aids	-	5,688	5,688
Local Revenue			
Other Local Grants	6,000	6,907	907
<b>Total Intergovernmental Revenue</b>	<u>143,700</u>	<u>252,495</u>	<u>108,795</u>
<b>Charges for Services</b>			
General Government	43,530	39,044	(4,486)
Police and Fire Contracts	96,200	74,413	(21,787)
Other Public Safety	1,000	817	(183)
Streets and Highways	400	559	159
Libraries	1,450	970	(480)
Parks and Recreation	-	15,043	15,043
<b>Total Charges for Services</b>	<u>142,580</u>	<u>130,846</u>	<u>(11,734)</u>
<b>Fines and Forfeitures</b>	9,000	18,406	9,406
<b>Miscellaneous Revenue</b>			
Investment Earnings	10,000	58,052	48,052
Sale of Assets	-	5,500	5,500
Refunds and Reimbursements	8,180	20,039	11,859
Contributions and Donations	32,650	38,458	5,808
Other Miscellaneous	4,000	10,949	6,949
<b>Total Miscellaneous Revenue</b>	<u>54,830</u>	<u>132,998</u>	<u>78,168</u>
<b>TOTAL REVENUES</b>	2,442,970	2,608,964	165,994
<b>EXPENDITURES</b>			
<b>General Government</b>			
Mayor and Council	36,975	39,537	2,562
Administration and Finance	263,860	286,504	22,644
Other General Government	349,840	283,147	(66,693)
Capital Outlay	51,000	-	(51,000)
<b>Total General Government</b>	<u>701,675</u>	<u>609,188</u>	<u>(92,487)</u>

**CITY OF PEQUOT LAKES, MINNESOTA**  
**BUDGETARY COMPARISON SCHEDULE – GENERAL FUND (Continued)**  
**FOR THE YEAR ENDED DECEMBER 31, 2023**

	Budget Amounts- Original and Final	Actual Amounts Budgetary Basis	Variance with Budget Over (Under)
	<u>          </u>	<u>          </u>	<u>          </u>
<b>Public Safety</b>			
Police			
Current	\$ 922,350	\$ 910,475	\$ (11,875)
Capital Outlay	44,000	80,370	36,370
<b>Total Public Safety</b>	<u>966,350</u>	<u>990,845</u>	<u>24,495</u>
<b>Public Works</b>			
Street Maintenance and Storm Sewers	347,565	384,554	36,989
Street Engineering	30,000	20,916	(9,084)
Street Lighting	29,530	26,818	(2,712)
Capital Outlay - Street Construction	-	18,932	18,932
Capital Outlay - Other	228,000	66,616	(161,384)
<b>Total Public Works</b>	<u>635,095</u>	<u>517,836</u>	<u>(117,259)</u>
<b>Culture and Recreation</b>			
Libraries			
Current	46,340	41,916	(4,424)
Parks and Recreation			
Current	33,280	38,591	5,311
Capital Outlay	-	4,009	4,009
<b>Total Culture and Recreation</b>	<u>79,620</u>	<u>84,516</u>	<u>4,896</u>
<b>Housing and Economic Development</b>			
Economic Development			
Current	49,900	39,006	(10,894)
<b>Debt Service</b>			
Principal Payments on Other Debt	30,770	33,000	2,230
Interest and Other Fiscal Charges	1,750	2,707	957
<b>Total Debt Service</b>	<u>32,520</u>	<u>35,707</u>	<u>3,187</u>
<b>TOTAL EXPENDITURES</b>	<u>2,465,160</u>	<u>2,277,098</u>	<u>(188,062)</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ (22,190)</u>	331,866	<u>\$ 354,056</u>
<b>FUND BALANCE - BEGINNING</b>		<u>2,162,348</u>	
<b>FUND BALANCE - ENDING</b>		<u>\$ 2,494,214</u>	

**CITY OF PEQUOT LAKES, MINNESOTA  
 BUDGETARY COMPARISON SCHEDULE – BUSINESS PARK FUND  
 FOR THE YEAR ENDED DECEMBER 31, 2023**

	Budget Amounts- Original and Final	Actual Amounts Budgetary Basis	Variance with Budget Over (Under)
	<u>          </u>	<u>          </u>	<u>          </u>
<b>REVENUES</b>			
<b>Miscellaneous Revenue</b>			
Investment Earnings	\$ 1,000	\$ 8,431	\$ 7,431
Loan Collections	-	9,485	9,485
<b>Total Miscellaneous Revenue</b>	<u>1,000</u>	<u>17,916</u>	<u>16,916</u>
<b>TOTAL REVENUES</b>	1,000	17,916	16,916
<b>EXPENDITURES</b>			
<b>Public Works</b>			
Capital Outlay - Street Construction	-	3,794	3,794
<b>Housing and Economic Development</b>			
Economic Development			
Current	<u>-</u>	<u>23,617</u>	<u>23,617</u>
<b>TOTAL EXPENDITURES</b>	<u>-</u>	<u>27,411</u>	<u>27,411</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	1,000	(9,495)	(10,495)
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers			
From Other Funds	<u>-</u>	<u>233,088</u>	<u>233,088</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ 1,000</u>	223,593	<u>\$ 222,593</u>
<b>FUND BALANCE - BEGINNING</b>		<u>278,325</u>	
<b>FUND BALANCE - ENDING</b>		<u>\$ 501,918</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>							
2023	0.0071%	\$ 397,024	\$ 10,951	\$ 407,975	\$ 621,566	65.64%	83.10%
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>							
2023	0.0294%	\$ 507,700	\$ 20,461	\$ 528,161	\$ 389,743	135.52%	86.47%
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>					
2023	\$ 45,744	\$ 45,744	\$ -	\$ 609,921	7.50%
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>					
2023	\$ 65,132	\$ 65,132	\$ -	\$ 367,980	17.70%
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,					
	2022	2021	2020	2019	2018	2017
<b>Changes in Total OPEB Liability (TOL)</b>						
Balance at January 1st	\$ 99,175	\$ 98,259	\$ 79,825	\$ 142,605	\$ 117,982	\$ 88,055
Service Cost	7,799	10,307	11,190	9,511	25,548	26,748
Interest on the TPL	2,138	2,134	2,615	5,780	4,736	3,778
Differences between Expected and Actual Experience	-	(9,836)	-	(72,354)	-	-
Changes in Actuarial Assumptions	(16,615)	2,020	6,351	(5,717)	-	-
Benefit Payments	(100)	(3,709)	(1,722)	-	(5,661)	(599)
Balance at December 31st	<u>\$ 92,397</u>	<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>\$ 865,553</u>	<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	10.67%	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, 2023**

**NOTE 1 BUDGETARY COMPARISON SCHEDULES**

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

Fund	Budgeted Expenditures	Actual Expenditures
Business Park Fund	\$ -	\$ 27,411

The expenditures in excess of budget in the Business Park Fund are primarily due to unbudgeted economic development costs. The expenditures in excess of budget were funded by available fund balance.

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

**2023 Changes**

Changes in Actuarial Assumptions

- The investment return assumption and single discount rate were changed from 6.50 percent to 7.00 percent.

Changes in Plan Provisions

- An additional one-time direct State aid contribution of \$170.1 million will be contributed to the Plan on October 1, 2023.
- The vesting period of those hired after June 30, 2010 was changed from five years of allowable service to three years of allowable service.
- The benefit increase delay for early retirements on or after January 1, 2024 was eliminated.
- A one-time, non-compounding benefit increase of 2.50 percent minus the actual 2024 adjustment will be payable in a lump sum for calendar year 2024 by March 31, 2024.

**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 have been 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 have been 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.



**CITY OF PEQUOT LAKES, MINNESOTA**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**DECEMBER 31, 2023**

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

- Assumed salary increase rates were changed as recommended in the June 30, 2019 experience study. The net effect is assumed rates that average 0.25 percent less than previous rates.
- Assumed rates of retirement were changed as recommended in the June 30, 2019 experience study. The changes result in more unreduced (normal) retirements and slightly fewer Rule of 90 and early retirements.
- Assumed rates of termination were changed as recommended in the June 30, 2019 experience study. The new rates are based on service and are generally lower than the previous rates for years 2-5 and slightly higher thereafter.
- Assumed rates of disability were changed as recommended in the June 30, 2019 experience study. The change results in fewer predicted disability retirements for males and females.
- The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 General Mortality table, with adjustments. The base mortality table for disabled annuitants was changed from the RP-2014 disabled annuitant mortality table to the PUB-2010 General/Teacher disabled annuitant mortality table, with adjustments.
- The mortality improvement scale was changed from Scale MP-2018 to Scale MP-2019.
- The assumed spouse age difference was changed from two years older for females to one year older.
- The assumed number of married male new retirees electing the 100.00 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.
- Annual 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.

**CITY OF PEQUOT LAKES, MINNESOTA**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**DECEMBER 31, 2023**

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

- 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 annual increase rate was changed from 1.00 percent per year for all years to 1.00 percent per year through 2044 and 2.50 percent per year thereafter.

Changes in Plan Provisions

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

**2016 Changes**

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

**2015 Changes**

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

- On January 1, 2015, the Minneapolis Employees Retirement Fund was merged into the General Employees Fund, which increased the total pension liability by \$1.1 billion and increased the fiduciary plan net position by \$892 million. Upon consolidation, State and employer contributions were revised; the State's contribution of \$6.0 million, which meets the special funding situation definition, was due September 2015.

**CITY OF PEQUOT LAKES, MINNESOTA**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**DECEMBER 31, 2023**

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

**2023 Changes**

Changes in Actuarial Assumptions

- The investment return assumption was changed from 6.50 percent to 7.00 percent.
- The single discount rate changed from 5.40 percent to 7.00 percent.

Changes in Plan Provisions

- Additional one-time direct state aid contribution of \$19.4 million will be contributed to the Plan on October 1, 2023.
- Vesting requirement for new hires after June 30, 2014 was changed from a graded 20-year vesting schedule to a graded 10-year vesting schedule, with 50.00 percent vesting after five years, increasing incrementally to 100.00 percent after 10 years.
- A one-time, non-compounding benefit increase of 3.00 percent will be payable in a lump sum for calendar year 2024 by March 31, 2024.
- Psychological treatment is required effective July 1, 2023, prior to approval for a duty disability benefit for a psychological condition relating to the member's occupation.
- The total and permanent duty disability benefit was increased, effective July 1, 2023.

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

**2021 Changes**

Changes in Actuarial Assumptions

- The investment return and single discount rates were changed from 7.50 percent to 6.50 percent, for financial reporting purposes.
- The inflation assumption was changed from 2.50 percent to 2.25 percent.
- The payroll growth assumption was changed from 3.25 percent to 3.00 percent.
- The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 Public Safety Mortality table. The mortality improvement scale was changed from MP-2019 to MN-2020.
- The base mortality table for disabled annuitants was changed from the RP-2014 healthy annuitant mortality table (with future mortality improvement according to Scale MP-2019) to the Pub-2010 Public Safety disabled annuitant mortality table (with future mortality improvement according to Scale MP-2020).
- Assumed rates of salary increase were modified as recommended in the July 14, 2020 experience study. The overall impact is a decrease in gross salary increase rates.
- Assumed rates of retirement were changed as recommended in the July 14, 2020 experience study. The changes result in slightly more unreduced retirements and fewer assumed early retirements.
- Assumed rates of withdrawal were changed from select and ultimate rates to service-based rates. The changes result in more assumed terminations.
- Assumed rates of disability were increased for ages 25-44 and decreased for ages over 49. Overall, proposed rates result in more projected disabilities.
- Assumed percent married for active female members was changed from 60 percent to 70 percent. Minor changes to form of payment assumptions were applied.

Changes in Plan Provisions

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

**CITY OF PEQUOT LAKES, MINNESOTA  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
DECEMBER 31, 2023**

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

**2020 Changes**

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

**2018 Changes**

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

- Annual 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.

**CITY OF PEQUOT LAKES, MINNESOTA**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**DECEMBER 31, 2023**

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

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

**2016 Changes**

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

**2015 Changes**

Changes in Actuarial Assumptions

- The assumed annual 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 annual 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**

**2022 Changes**

Changes in Actuarial Assumptions

- The discount rate was changed from 2.00 percent to 4.00 percent.
- The inflation rate was changed from 2.00 percent to 2.50 percent.

Changes in Plan Provisions

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

**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.

**CITY OF PEQUOT LAKES, MINNESOTA**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**DECEMBER 31, 2023**

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

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.

**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, 2023**

	Special Revenue			Debt Service						Total Nonmajor Funds
	Cemetery Perpetual Care Fund	Trailside Estates Fund	Firewatch Way Development Fund	2020 GO Utility Bonds Fund	2014 Equipment Certificates Fund	2017 Equipment Certificates Fund	2022A GO Equipment Certificates Fund	2014 Fire Truck Loan	TIF District 2- 2 Fund	
	<b>ASSETS</b>									
Cash, Cash Equivalents, and Investments	\$ 70,622	\$ -	\$ 36,705	\$ 114,149	\$ 6,611	\$ 31,568	\$ -	\$ -	\$ -	\$ 259,655
Debt Reserve Restricted Cash	-	-	-	-	-	-	-	29,125	-	29,125
Property Taxes Receivable	-	-	-	5,673	150	-	1,402	-	-	7,225
<b>TOTAL ASSETS</b>	<u>\$ 70,622</u>	<u>\$ -</u>	<u>\$ 36,705</u>	<u>\$ 119,822</u>	<u>\$ 6,761</u>	<u>\$ 31,568</u>	<u>\$ 1,402</u>	<u>\$ 29,125</u>	<u>\$ -</u>	<u>\$ 296,005</u>
<b>LIABILITIES</b>										
Due to Other Funds	\$ -	\$ 2,579	\$ -	\$ -	\$ -	\$ -	\$ 1,826	\$ -	\$ 7,302	\$ 11,707
Unearned Revenue	-	-	30,275	-	-	-	-	-	-	30,275
Total Liabilities	-	2,579	30,275	-	-	-	1,826	-	7,302	41,982
<b>DEFERRED INFLOWS OF RESOURCES</b>										
Unavailable Revenue:										
Property Taxes	-	-	-	3,075	150	-	685	-	-	3,910
<b>FUND BALANCES</b>										
Restricted	-	-	-	116,747	6,611	31,568	-	29,125	-	184,051
Committed	70,622	-	6,430	-	-	-	-	-	-	77,052
Unassigned	-	(2,579)	-	-	-	-	(1,109)	-	(7,302)	(10,990)
Total Fund Balances	<u>70,622</u>	<u>(2,579)</u>	<u>6,430</u>	<u>116,747</u>	<u>6,611</u>	<u>31,568</u>	<u>(1,109)</u>	<u>29,125</u>	<u>(7,302)</u>	<u>250,113</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>	<u>\$ 70,622</u>	<u>\$ -</u>	<u>\$ 36,705</u>	<u>\$ 119,822</u>	<u>\$ 6,761</u>	<u>\$ 31,568</u>	<u>\$ 1,402</u>	<u>\$ 29,125</u>	<u>\$ -</u>	<u>\$ 296,005</u>



**CITY OF PEQUOT LAKES, MINNESOTA**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2023**

	Special Revenue			Debt Service						Total Nonmajor Funds
	Cemetery Perpetual Care Fund	Trailside Estates Fund	Firewatch Way Development Fund	2020 GO Utility Bonds Fund	2014 Equipment Certificates Fund	2017 Equipment Certificates Fund	2022A GO Equipment Certificates Fund	2014 Fire Truck Loan	TIF District 2- 2 Fund	
	<b>REVENUES</b>									
Taxes	\$ -	\$ -	\$ -	\$ 86,336	\$ -	\$ -	\$ 25,354	\$ -	\$ -	\$ 111,690
Intergovernmental	-	-	-	-	-	-	-	33,430	-	33,430
Charges for Services	800	-	-	-	-	-	-	-	-	800
Investment Earnings (Losses)	1,282	-	188	89	118	564	-	-	-	2,241
Miscellaneous	1	-	7,165	-	-	-	-	-	-	7,166
<b>TOTAL REVENUES</b>	<b>2,083</b>	<b>-</b>	<b>7,353</b>	<b>86,425</b>	<b>118</b>	<b>564</b>	<b>25,354</b>	<b>33,430</b>	<b>-</b>	<b>155,327</b>
<b>EXPENDITURES</b>										
Current:										
General Government	-	-	923	-	-	-	-	-	-	923
Public Safety	-	-	-	-	-	557	-	-	-	557
Public Works	-	1,714	-	531	6	-	531	-	-	2,782
Economic Development	-	-	-	-	-	-	-	-	7,302	7,302
Cemetery	3,395	-	-	-	-	-	-	-	-	3,395
Debt Service:										
Principal	-	-	-	62,000	-	-	20,000	23,888	-	105,888
Interest and Other Charges	-	-	-	20,625	-	-	5,932	6,503	-	33,060
<b>TOTAL EXPENDITURES</b>	<b>3,395</b>	<b>1,714</b>	<b>923</b>	<b>83,156</b>	<b>6</b>	<b>557</b>	<b>26,463</b>	<b>30,391</b>	<b>7,302</b>	<b>153,907</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(1,312)</b>	<b>(1,714)</b>	<b>6,430</b>	<b>3,269</b>	<b>112</b>	<b>7</b>	<b>(1,109)</b>	<b>3,039</b>	<b>(7,302)</b>	<b>1,420</b>
<b>FUND BALANCES - BEGINNING</b>	<b>71,934</b>	<b>(865)</b>	<b>-</b>	<b>113,478</b>	<b>6,499</b>	<b>31,561</b>	<b>-</b>	<b>26,086</b>	<b>-</b>	<b>248,693</b>
<b>FUND BALANCES - ENDING</b>	<b>\$ 70,622</b>	<b>\$ (2,579)</b>	<b>\$ 6,430</b>	<b>\$ 116,747</b>	<b>\$ 6,611</b>	<b>\$ 31,568</b>	<b>\$ (1,109)</b>	<b>\$ 29,125</b>	<b>\$ (7,302)</b>	<b>\$ 250,113</b>

**CITY OF PEQUOT LAKES, MINNESOTA  
SCHEDULE OF INDEBTEDNESS  
FOR THE YEAR ENDED DECEMBER 31, 2023  
(UNAUDITED)**

	<u>Issue Dates</u>	<u>Interest Rates</u>	<u>Maturity Dates</u>	<u>Initial Authorized Issue</u>	<u>Outstanding Balance 01/01/23</u>	<u>Issued</u>	<u>Paid</u>	<u>Transferred</u>	<u>Outstanding Balance 12/31/23</u>	<u>Principal Due Within One Year</u>
<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	\$ 997,000	\$ -	\$ 62,000	\$ -	\$ 935,000	\$ 63,000
Community Facility Loan - Fire Truck	2/1/2014	3.50%	3/26/2029	350,000	185,794	-	23,888	-	161,906	24,724
City Hall Building Financing Arrangement	2/1/2004	4.59%	8/1/2024	1,097,442	51,850	-	33,000	-	18,850	18,850
G.O. Equipment Certificate, Series 2022A	2/15/2022	2.40%	2/1/2030	176,000	176,000	-	20,000	-	156,000	21,000
<b>TOTAL GOVERNMENTAL DEBTS</b>				2,681,442	1,410,644	-	138,888	-	1,271,756	127,574
<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	957,000	-	59,000	-	898,000	61,000
G.O. Utility Refunding Bonds, Series 2012A	2/1/2013	0.60-3.10%	2/1/2031	1,270,000	665,000	-	65,000	-	600,000	65,000
<b>TOTAL BUSINESS-TYPE DEBTS</b>				2,310,000	1,622,000	-	124,000	-	1,498,000	126,000
<b>TOTAL INDEBTEDNESS</b>				<u>\$ 4,991,442</u>	<u>\$ 3,032,644</u>	<u>\$ -</u>	<u>\$ 262,888</u>	<u>\$ -</u>	<u>\$ 2,769,756</u>	<u>\$ 253,574</u>

**OTHER REQUIRED REPORTS  
AND SCHEDULES**

**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, 2023, and the related notes to the financial statements, which collectively comprise the City of Pequot Lakes' basic financial statements and have issued our report thereon dated August 27, 2024.

**Report on Internal Control Over Financial Reporting**

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

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

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying *Schedule of Findings and Responses* as items 2006-001 and 2020-003 to be material weaknesses.

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

## **Report on Compliance and Other Matters**

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

### **Minnesota Legal Compliance**

In connection with our audit, we noted that the City failed to comply with provisions of the contracting – bid laws section of the *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, insofar as they relate to accounting matters as described in the *Schedule of Findings and Responses* as item 2023-004. Also, in connection with our audit, nothing came to our attention that caused us to believe that the City failed to comply with the provisions of the 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*, 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 of Pequot Lakes' 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

August 27, 2024

**CITY OF PEQUOT LAKES, MINNESOTA  
SCHEDULE OF FINDINGS AND RESPONSES  
DECEMBER 31, 2023**

**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, 2023**

**FINANCIAL STATEMENT FINDINGS (Continued)**

*Views of Responsible  
Officials And Planned  
Corrective Action:*

The City will continue to have Schlenner Wenner & Co. prepare the financial statements but will review the cost/benefit of preparing financial statements internally on an annual basis. See corresponding Corrective Action Plan.

**Finding 2020-003                      Material Audit Adjustments**

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

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

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

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

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

*Views of Responsible  
Officials And Planned  
Corrective Action:*

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

**LEGAL COMPLIANCE FINDING**

**Finding 2023-004                      Contract Compliance**

*Condition:*                                      The City failed to obtain competing quotes for certain contracts in excess of \$25,000.

*Criteria:*                                        In accordance with Minnesota Statute 471.345, subdivision 4, the City is required to obtain at least two quotes for contracts in valuation between \$25,000 and \$175,000.

*Cause:*    The City purchased equipment and road maintenance services with a cost greater than \$25,000 without obtaining more than one quote.

*Effect:*    The failure to obtain competing quotes for the contract resulted in the City's noncompliance with Minnesota Statutes.

*Recommendation:*                            We recommend the City obtain at least two quotes for future contracts with estimated costs ranging from \$25,000 to \$175,000, and ensure all individuals involved with the procurement process be familiar with the requirements of Minnesota Statutes.

*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, 2023**

**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  
Angie Duus, 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  
Angie Duus, 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, 2023**

**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  
Angie Duus, City Administrator, is the official responsible for ensuring corrective action.
4. Planned Completion Date  
The Corrective Action Plan will be reviewed on an ongoing basis with no anticipated completion date.
5. Plan to Monitor Completion  
The City Council will be monitoring this Corrective Action Plan.

**LEGAL COMPLIANCE FINDING**

**Finding 2023-004            Contract Compliance**

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 over contract compliance where possible.
3. Official Responsible  
Angie Duus, City Administrator, is the official responsible for ensuring corrective action.
4. Planned Completion Date  
December 31, 2024
5. Plan to Monitor Completion  
The City Council will be monitoring this Corrective Action Plan.