

CITY OF HOYT LAKES, MINNESOTA
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
Year Ended December 31, 2022

CITY OF HOYT LAKES, MINNESOTA

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CITY OF HOYT LAKES, MINNESOTA

**ORGANIZATION
December 31, 2022**

CITY COUNCIL

Mayor	Chris Vreeland (resigned May 31, 2022) David Zins (effective June 1, 2022)
Councilors	Stuart Beauregard (effective June 27, 2022) Cherie Grams (effective January 10, 2022) Deborah Kramar Dan Popp David Zins (effective through May 31, 2022)

ADMINISTRATION

City Administrator	Rebecca Lammi
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FINANCIAL SECTION



CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

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INDEPENDENT AUDITOR’S REPORT

To the City Council
City of Hoyt Lakes, Minnesota

Report on the Audit of the Financial Statements

Qualified and Unmodified Opinions

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hoyt Lakes, Minnesota, as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the City of Hoyt Lakes, Minnesota’s basic financial statements as listed in the table of contents.

Summary of Opinions

Opinion Unit	Type of Opinion
Governmental Activities	Qualified
Business-Type Activities	Qualified
Governmental Funds	Unmodified
Enterprise Funds	Qualified
Aggregate Remaining Fund Information	Unmodified

Qualified Opinions on Governmental Activities, Business-Type Activities, and Enterprise Funds

In our opinion, except for the effects of the matters described in the Basis for Qualified and Unmodified Opinions section of this report, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and the enterprise funds of the City of Hoyt Lakes, Minnesota, as of December 31, 2022, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions on Governmental Funds and Aggregate Remaining Fund Information

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of each major governmental fund and the aggregate remaining fund information of the City of Hoyt Lakes, Minnesota, as of December 31, 2022, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Qualified and Unmodified Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*). 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 of Hoyt Lakes, Minnesota 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 qualified and unmodified opinions.

Matters Giving Rise to Qualified Opinions on Governmental Activities, Business-Type Activities, and Enterprise Funds

Management has declined to allocate the City's proportionate share of the net pension liability and related deferred outflows of resources and deferred inflows of resources of the General Employees Retirement Fund to the business-type activities and enterprise funds of the City as required by accounting principles generally accepted in the United States of America. The amount by which this departure would affect assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenues, and expenses of the governmental activities, business-type activities, and enterprise funds has not been determined.

Emphasis of Matter – Change in Accounting Principle

As discussed in Note 1 to the financial statements, effective January 1, 2022, the City adopted new accounting guidance for leases. The guidance requires lessees to recognize a right-to-use lease asset and corresponding lease liability and lessors to recognize a lease receivable and corresponding deferred inflow of resources for all leases with lease terms greater than twelve months. Our opinion is not modified with respect to this matter.

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 of Hoyt Lakes, Minnesota's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from

fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City of Hoyt Lakes, Minnesota'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 of Hoyt Lakes, Minnesota'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 budgetary comparison information, schedule of changes in the City's net OPEB liability and related ratios, schedules of City's proportionate share of net pension liability and City's contributions for defined benefit pension plan, schedule of changes in net pension liability/asset, and schedule of City contributions 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 GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not 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, economical, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 26, 2023, on our consideration of the City of Hoyt Lakes, Minnesota's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Hoyt Lakes, Minnesota'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 City of Hoyt Lakes, Minnesota's internal control over financial reporting and compliance.

Walker, Miray & Helne, LLC

Virginia, Minnesota
May 26, 2023

BASIC FINANCIAL STATEMENTS

CITY OF HOYT LAKES, MINNESOTA

STATEMENT OF NET POSITION
December 31, 2022

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 2,282,009	\$ 771,557	\$ 3,053,566
Taxes receivable	34,479	-	34,479
Accounts receivable	169,179	153,651	322,830
Grants receivable	34,619	-	34,619
Due from other governments	-	73,293	73,293
Lease receivable	734,719	-	734,719
Internal balances	74,438	(74,438)	-
Inventories	-	59,914	59,914
Prepaid items	76,318	21,954	98,272
Restricted assets			
Restricted cash	45,570	-	45,570
Net pension asset	56,290	-	56,290
Capital assets not being depreciated			
Land	445,000	40,000	485,000
Construction in progress	484,339	10,569,554	11,053,893
Capital assets net of accumulated depreciation			
Land improvements	115,526	-	115,526
Infrastructure	2,160,310	5,675,002	7,835,312
Buildings	4,101,253	1,047,953	5,149,206
Machinery and equipment	501,438	19,793	521,231
Licensed vehicles	393,668	221,432	615,100
Right-to-use assets net of accumulated amortization			
Leased machinery and equipment	87,498	-	87,498
TOTAL ASSETS	11,796,653	18,579,665	30,376,318
DEFERRED OUTFLOWS OF RESOURCES			
Related to other postemployment benefits (OPEB)	44,472	-	44,472
Related to pensions	582,095	-	582,095
TOTAL DEFERRED OUTFLOWS OF RESOURCES	626,567	-	626,567
LIABILITIES			
Accounts payable	62,125	81,972	144,097
Salaries payable	59,125	10,688	69,813
Contracts payable	87,684	-	87,684
Due to other governments	6,858	-	6,858
Customer deposits	-	4,889	4,889
Accrued interest payable	22,168	38,933	61,101
Unearned revenues	162,729	-	162,729
Noncurrent liabilities			
Due within one year			
Bonds, loans, notes, and financed purchases	193,967	244,000	437,967
Lease liability	16,382	-	16,382
Due in more than one year			
Bonds, loans, notes, and financed purchases	3,051,662	5,131,931	8,183,593
Lease liability	71,116	-	71,116
Severance benefits	31,106	-	31,106
Other postemployment benefits obligation (OPEB)	756,904	-	756,904
Net pension liability	1,354,326	-	1,354,326
TOTAL LIABILITIES	5,876,152	5,512,413	11,388,565
DEFERRED INFLOWS OF RESOURCES			
Related to leases	734,719	-	734,719
Related to pensions	50,322	-	50,322
TOTAL DEFERRED INFLOWS OF RESOURCES	785,041	-	785,041
NET POSITION			
Net investment in capital assets	4,955,905	12,197,803	17,153,708
Restricted for:			
Debt service	108,512	-	108,512
Unrestricted	697,610	869,449	1,567,059
TOTAL NET POSITION	\$ 5,762,027	\$ 13,067,252	\$ 18,829,279

The accompanying notes are an integral part of these financial statements.

CITY OF HOYT LAKES, MINNESOTA

STATEMENT OF ACTIVITIES
Year Ended December 31, 2022

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>	
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>
PRIMARY GOVERNMENT			
Governmental Activities			
General government	\$ 732,489	\$ 101,229	\$ 68,480
Public safety	1,736,797	728,431	204,920
Public works	1,002,154	13,125	-
Culture and recreation	1,634,550	336,604	99,067
Economic development	19,186	60,522	-
Interest on long-term debt	50,500	-	-
Total Governmental Activities	<u>5,175,676</u>	<u>1,239,911</u>	<u>372,467</u>
Business-type Activities			
Water	543,745	483,767	-
Sewer	726,766	850,867	-
Sanitation	336,493	290,641	-
Total Business-type Activities	<u>1,607,004</u>	<u>1,625,275</u>	<u>-</u>
Total Primary Government	<u>\$ 6,782,680</u>	<u>\$ 2,865,186</u>	<u>\$ 372,467</u>

General Revenues

Taxes:

Property taxes, levied for general purposes

Franchise taxes

Grants and contributions not restricted to specific programs

Unrestricted investment earnings

Gain on sale of assets

Transfers

Total General Revenues and Transfers

CHANGE IN NET POSITION

NET POSITION - JANUARY 1

NET POSITION - DECEMBER 31

The accompanying notes are an integral part of these financial statements.

<u>Capital Grants and Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Position</u>		
	<u>Primary Government</u>		
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
\$ -	\$ (562,780)	\$ -	\$ (562,780)
-	(803,446)	-	(803,446)
-	(989,029)	-	(989,029)
436,748	(762,131)	-	(762,131)
-	41,336	-	41,336
-	(50,500)	-	(50,500)
<u>436,748</u>	<u>(3,126,550)</u>	<u>-</u>	<u>(3,126,550)</u>
-	-	(59,978)	(59,978)
2,662,598	-	2,786,699	2,786,699
-	-	(45,852)	(45,852)
<u>2,662,598</u>	<u>-</u>	<u>2,680,869</u>	<u>2,680,869</u>
<u>\$ 3,099,346</u>	<u>(3,126,550)</u>	<u>2,680,869</u>	<u>(445,681)</u>
	1,741,290	-	1,741,290
	54,580	-	54,580
	1,202,548	-	1,202,548
	24,970	5,430	30,400
	16,643	-	16,643
	<u>(181,024)</u>	<u>181,024</u>	<u>-</u>
	<u>2,859,007</u>	<u>186,454</u>	<u>3,045,461</u>
	(267,543)	2,867,323	2,599,780
	<u>6,029,570</u>	<u>10,199,929</u>	<u>16,229,499</u>
	<u>\$ 5,762,027</u>	<u>\$ 13,067,252</u>	<u>\$ 18,829,279</u>

CITY OF HOYT LAKES, MINNESOTA

BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2022

	General Fund	Ambulance Special Revenue Fund	Stern Companies Debt Service Fund	Ranger ATV Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash and cash equivalents	\$ 1,137,757	\$ 801,953	\$ 115,370	\$ -	\$ 272,499	\$ 2,327,579
Taxes receivable	34,479	-	-	-	-	34,479
Accounts receivable	-	169,179	-	-	-	169,179
Grants receivable	-	-	-	34,619	-	34,619
Lease receivable	-	-	734,719	-	-	734,719
Due from other funds	121,810	-	-	-	-	121,810
Prepaid items	59,194	17,124	-	-	-	76,318
TOTAL ASSETS	\$ 1,353,240	\$ 988,256	\$ 850,089	\$ 34,619	\$ 272,499	\$ 3,498,703
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES						
LIABILITIES						
Accounts payable	\$ 59,094	\$ 33	\$ -	\$ 2,998	\$ -	\$ 62,125
Salaries payable	45,486	13,639	-	-	-	59,125
Due to other governments	-	-	6,858	-	-	6,858
Due to other funds	-	-	-	47,372	-	47,372
Contacts payable	-	87,684	-	-	-	87,684
Unearned revenue	52,942	5,000	-	-	104,787	162,729
TOTAL LIABILITIES	157,522	106,356	6,858	50,370	104,787	425,893
DEFERRED INFLOWS OF RESOURCES						
Unavailable revenue - property taxes	31,044	-	-	-	-	31,044
Unavailable revenue - lease receivable	-	-	734,719	-	-	734,719
TOTAL DEFERRED INFLOWS OF RESOURCES	31,044	-	734,719	-	-	765,763
FUND BALANCES						
Nonspendable	59,194	17,124	-	-	-	76,318
Restricted	-	-	108,512	-	-	108,512
Committed	301,001	864,776	-	-	167,612	1,333,389
Assigned	461,769	-	-	-	100	461,869
Unassigned	342,710	-	-	(15,751)	-	326,959
TOTAL FUND BALANCES	1,164,674	881,900	108,512	(15,751)	167,712	2,307,047
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 1,353,240	\$ 988,256	\$ 850,089	\$ 34,619	\$ 272,499	\$ 3,498,703

The accompanying notes are an integral part of these financial statements.

CITY OF HOYT LAKES, MINNESOTA

**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
December 31, 2022**

Amounts reported for governmental activities in the statement of net position are different because:

TOTAL FUND BALANCES, GOVERNMENTAL FUNDS		\$ 2,307,047
The City's net pension asset related to the Volunteer Firefighters plan is not reported in the governmental funds.		56,290
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.		
Cost of capital assets, net of accumulated depreciation	8,201,534	
Right-to-use leased assets, net of accumulated amortization	<u>87,498</u>	8,289,032
Other long-term assets are not available to pay current period expenditures and, therefore, are reported as unavailable revenues in the funds.		31,044
Interest payable on long-term debt is susceptible to full accrual on the government-wide statements.		(22,168)
Long-term liabilities, including bonds, loans, notes, and financed purchases, lease liability, severance benefits, other postemployment benefits and net pension liability are not due and payable in the current period and therefore not reported in the governmental funds.		(5,475,463)
Deferred outflows and inflows of resources related to pensions and other postemployment benefits are applicable to future periods and therefore not reported in the governmental funds.		
Deferred outflows of resources related to other postemployment benefits	44,472	
Deferred outflows of resources related to pensions	582,095	
Deferred inflows of resources related to pensions	<u>(50,322)</u>	<u>576,245</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES		<u>\$ 5,762,027</u>

The accompanying notes are an integral part of these financial statements.

CITY OF HOYT LAKES, MINNESOTA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

Year Ended December 31, 2022

	General Fund	Ambulance Special Revenue Fund	Stern Companies Debt Service Fund	Ranger ATV Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
REVENUES						
Taxes	\$ 1,783,663	\$ -	\$ -	\$ -	\$ -	\$ 1,783,663
Licenses and permits	7,819	-	-	-	-	7,819
Intergovernmental	1,264,542	110,999	-	383,984	66,461	1,825,986
Charges for services	367,307	717,769	60,522	-	13,125	1,158,723
Fines	1,449	-	-	-	-	1,449
Gifts and contributions	6,640	7,500	-	150,000	-	164,140
Interest	6,414	3,118	15,438	-	-	24,970
Miscellaneous	61,258	10,662	-	-	-	71,920
TOTAL REVENUES	3,499,092	850,048	75,960	533,984	79,586	5,038,670
EXPENDITURES						
Current						
General government	708,042	-	-	-	-	708,042
Public safety	716,743	792,305	-	-	-	1,509,048
Public works	770,412	-	-	-	-	770,412
Culture and recreation	885,087	-	-	549,735	-	1,434,822
Economic development	18,855	-	-	-	-	18,855
Miscellaneous	-	-	-	-	12,874	12,874
Debt Service						
Principal	9,364	-	35,000	-	230,000	274,364
Interest and other charges	840	-	-	-	64,385	65,225
Capital Outlay						
General government	29,273	-	-	-	66,461	95,734
Public safety	9,862	151,694	-	-	-	161,556
Public works	46,552	-	-	-	106,415	152,967
Culture and recreation	527,857	-	-	-	-	527,857
Miscellaneous	-	-	-	-	17,892	17,892
TOTAL EXPENDITURES	3,722,887	943,999	35,000	549,735	498,027	5,749,648
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(223,795)	(93,951)	40,960	(15,751)	(418,441)	(710,978)
OTHER FINANCING SOURCES (USES)						
Transfers in	18,770	-	-	-	294,385	313,155
Transfers out	(294,385)	(12,770)	-	-	-	(307,155)
Lease liability issuance	87,498	-	-	-	-	87,498
Sale of capital assets	-	21,500	-	-	-	21,500
TOTAL OTHER FINANCING SOURCES (USES)	(188,117)	8,730	-	-	294,385	114,998
NET CHANGE IN FUND BALANCES	(411,912)	(85,221)	40,960	(15,751)	(124,056)	(595,980)
FUND BALANCES - JANUARY 1	1,576,586	967,121	67,552	-	291,768	2,903,027
FUND BALANCES - DECEMBER 31	\$ 1,164,674	\$ 881,900	\$ 108,512	\$ (15,751)	\$ 167,712	\$ 2,307,047

The accompanying notes are an integral part of these financial statements.

CITY OF HOYT LAKES, MINNESOTA

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended December 31, 2022**

Amounts reported for governmental activities in the statement of activities are different because:

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ (595,980)

Governmental funds report outlays for capital assets as expenditures; however, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives.

Expenditures for capital assets	868,508	
Expenditures for right-to-use assets	87,498	
Less current year depreciation	(554,718)	401,288

Capital assets, net of related debt, were contributed to the:

Water Enterprise Fund	(146,312)	
Wastewater Enterprise Fund	(40,712)	(187,024)

Governmental funds report the entire net sales price (proceeds) from sale of an asset as revenue because it provides current financial resources. In contrast, the statement of activities reports the gain or loss on the sale of the assets. Thus, the change in net position differs from the change in fund balance by the cost of the asset sold.

(4,857)

Some revenues reported in the statement of activities do not require the use of current financial resources and therefore are not reported as revenues in governmental funds.

Change in unavailable revenue - delinquent property taxes		12,207
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Debt or lease liabilities issued provides current financial resources to governmental funds, but issuing debt or lease liabilities increases long-term liabilities in the statement of net position. Repayment of debt or lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.

Lease liability issued	(87,498)	
Principal payments	274,364	186,866

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Change in accrued interest payable on long-term debt	12,895	
Change in severance payable	(22,718)	
Change in other postemployment benefits payable and related deferred outflows of resources	78,540	
Change in net pension asset, net pension liability and related deferred outflows and inflows of resources	(148,760)	(80,043)

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES **\$ (267,543)**

The accompanying notes are an integral part of these financial statements.

CITY OF HOYT LAKES, MINNESOTA

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
December 31, 2022

	<u>Business-type Activities - Enterprise Funds</u>			
	<u>Water Enterprise Fund</u>	<u>Sewer Enterprise Fund</u>	<u>Sanitation Enterprise Fund</u>	<u>Totals</u>
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	\$ 65,018	\$ 706,539	\$ -	\$ 771,557
Accounts receivable	48,752	84,629	20,270	153,651
Due from other governments	-	73,293	-	73,293
Inventories	53,491	6,423	-	59,914
Prepaid items	9,688	10,671	1,595	21,954
TOTAL CURRENT ASSETS	<u>176,949</u>	<u>881,555</u>	<u>21,865</u>	<u>1,080,369</u>
NONCURRENT ASSETS				
Capital assets				
Land	20,000	20,000	-	40,000
Construction in progress	-	10,569,554	-	10,569,554
Infrastructure	331,837	6,099,067	-	6,430,904
Buildings	2,428,436	941,415	-	3,369,851
Machinery and equipment	281,271	77,821	-	359,092
Licensed vehicles	73,848	268,816	-	342,664
Less accumulated depreciation	(1,944,794)	(1,593,537)	-	(3,538,331)
TOTAL NONCURRENT ASSETS	<u>1,190,598</u>	<u>16,383,136</u>	<u>-</u>	<u>17,573,734</u>
TOTAL ASSETS	<u>1,367,547</u>	<u>17,264,691</u>	<u>21,865</u>	<u>18,654,103</u>
LIABILITIES				
CURRENT LIABILITIES				
Accounts payable	42	63,133	18,797	81,972
Salaries payable	5,173	5,174	341	10,688
Customer deposits	4,889	-	-	4,889
Accrued interest payable	1,543	37,390	-	38,933
Due to other funds	-	-	74,438	74,438
Bonds and notes payable - current	11,075	232,925	-	244,000
TOTAL CURRENT LIABILITIES	<u>22,722</u>	<u>338,622</u>	<u>93,576</u>	<u>454,920</u>
NONCURRENT LIABILITIES				
Bonds and notes payable	148,375	4,983,556	-	5,131,931
TOTAL LIABILITIES	<u>171,097</u>	<u>5,322,178</u>	<u>93,576</u>	<u>5,586,851</u>
NET POSITION				
Net investment in capital assets	1,031,148	11,166,655	-	12,197,803
Unrestricted	165,302	775,858	(71,711)	869,449
TOTAL NET POSITION	<u>\$ 1,196,450</u>	<u>\$ 11,942,513</u>	<u>\$ (71,711)</u>	<u>\$ 13,067,252</u>

The accompanying notes are an integral part of these financial statements.

CITY OF HOYT LAKES, MINNESOTA

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS**

Year Ended December 31, 2022

Business-type Activities - Enterprise Funds

	Water Enterprise Fund	Sewer Enterprise Fund	Sanitation Enterprise Fund	Totals
REVENUES				
Charges for services	\$ 483,767	\$ 850,867	\$ 290,641	\$ 1,625,275
OPERATING EXPENSES				
Personal services	168,895	171,924	21,779	362,598
Contractual services	10,808	13,066	195,983	219,857
Utilities	73,183	76,076	2,772	152,031
Repairs and maintenance	22,415	60,358	480	83,253
Other supplies and expenses	11,839	9,076	20,335	41,250
Chemicals	138,936	47,437	-	186,373
Insurance claims and expenses	5,775	6,431	390	12,596
State and county fees	-	-	580	580
Depreciation	89,951	235,322	-	325,273
Miscellaneous	16,031	6,758	94,174	116,963
TOTAL OPERATING EXPENSES	537,833	626,448	336,493	1,500,774
OPERATING INCOME (LOSS)	(54,066)	224,419	(45,852)	124,501
NONOPERATING REVENUES (EXPENSES)				
Interest income	1,021	4,409	-	5,430
Interest and other charges	(5,912)	(107,318)	-	(113,230)
Gain on disposal of capital assets	-	7,000	-	7,000
TOTAL NONOPERATING REVENUES (EXPENSES)	(4,891)	(95,909)	-	(100,800)
INCOME (LOSS) BEFORE CAPITAL GRANTS, CAPITAL CONTRIBUTIONS, AND TRANSFERS	(58,957)	128,510	(45,852)	23,701
Capital grant	-	2,662,598	-	2,662,598
Capital contributions	146,312	40,712	-	187,024
Transfers out	(3,000)	(3,000)	-	(6,000)
CHANGE IN NET POSITION	84,355	2,828,820	(45,852)	2,867,323
TOTAL NET POSITION - JANUARY 1	1,112,095	9,113,693	(25,859)	10,199,929
TOTAL NET POSITION - DECEMBER 31	\$ 1,196,450	\$ 11,942,513	\$ (71,711)	\$ 13,067,252

The accompanying notes are an integral part of these financial statements.

CITY OF HOYT LAKES, MINNESOTA

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended December 31, 2022**

	Business-type Activities - Enterprise Funds			Totals
	Water Enterprise Fund	Sewer Enterprise Fund	Sanitation Enterprise Fund	
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	\$ 476,583	\$ 838,850	\$ 291,213	\$ 1,606,646
Cash payments to suppliers	(305,398)	(134,060)	(300,074)	(739,532)
Cash payments to employees	(167,994)	(171,022)	(21,730)	(360,746)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>3,191</u>	<u>533,768</u>	<u>(30,591)</u>	<u>506,368</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Interfund financing of cash deficit	-	-	74,438	74,438
Prior year cash deficit implicitly financed	-	-	(43,847)	(43,847)
Transfers out to other funds	(3,000)	(3,000)	-	(6,000)
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	<u>(3,000)</u>	<u>(3,000)</u>	<u>30,591</u>	<u>24,591</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Purchase of capital assets	(12,534)	(3,129,399)	-	(3,141,933)
Proceeds from bond issuance	-	475,181	-	475,181
Principal paid on long-term debt	(11,075)	(557,925)	-	(569,000)
Interest paid on long-term debt	(4,536)	(100,100)	-	(104,636)
Capital grant	-	2,662,598	-	2,662,598
Sale of capital assets	-	7,000	-	7,000
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(28,145)</u>	<u>(642,645)</u>	<u>-</u>	<u>(670,790)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received	<u>1,021</u>	<u>4,409</u>	<u>-</u>	<u>5,430</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(26,933)	(107,468)	-	(134,401)
CASH AND CASH EQUIVALENTS, JANUARY 1	<u>91,951</u>	<u>814,007</u>	<u>-</u>	<u>905,958</u>
CASH AND CASH EQUIVALENTS, DECEMBER 31	<u>\$ 65,018</u>	<u>\$ 706,539</u>	<u>\$ -</u>	<u>\$ 771,557</u>

The accompanying notes are an integral part of these financial statements.

CITY OF HOYT LAKES, MINNESOTA

**STATEMENT OF CASH FLOWS (CONTINUED)
PROPRIETARY FUNDS
Year Ended December 31, 2022**

	Business-type Activities - Enterprise Funds			
	Water Enterprise Fund	Sewer Enterprise Fund	Sanitation Enterprise Fund	Totals
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Operating income (loss)	\$ (54,066)	\$ 224,419	\$ (45,852)	\$ 124,501
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	89,951	235,322	-	325,273
Changes in assets and liabilities (Increase) decrease in:				
Accounts receivable	(5,043)	(12,017)	572	(16,488)
Inventories	(22,486)	(3,435)	-	(25,921)
Prepaid items	(3,312)	89,131	(1,595)	84,224
Increase (decrease) in:				
Accounts payable	(613)	(554)	16,235	15,068
Salaries payable	901	902	49	1,852
Customer deposits	(2,141)	-	-	(2,141)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 3,191	\$ 533,768	\$ (30,591)	\$ 506,368
NONCASH INVESTING, CAPITAL AND RELATED FINANCING ACTIVITIES:				
Total capital asset additions	\$ 296,837	\$ 4,142,728	\$ -	\$ 4,439,565
Contributions of capital assets from government	(296,837)	(1,005,187)	-	(1,302,024)
Due from other governments - prior year	-	(359,219)	-	(359,219)
Due from other governments - current year	-	73,293	-	73,293
Contracts payable incurred for the purchase/construction of capital assets - prior year	12,534	340,884	-	353,418
Contracts payable incurred for the purchase/construction of capital assets - current year	-	(63,100)	-	(63,100)
Cash paid	<u>\$ 12,534</u>	<u>\$ 3,129,399</u>	<u>\$ -</u>	<u>\$ 3,141,933</u>
Contributions of capital assets from government	\$ 296,837	\$ 1,005,187	\$ -	\$ 1,302,024
Transfer of related debt from government	(150,525)	(964,475)	-	(1,115,000)
Capital contributions	<u>\$ 146,312</u>	<u>\$ 40,712</u>	<u>\$ -</u>	<u>\$ 187,024</u>

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

CITY OF HOYT LAKES, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent sections of this note.

A. Financial Reporting Entity

The City of Hoyt Lakes, Minnesota a political subdivision of the State of Minnesota, is a statutory city governed by an elected city council which consists of one mayor and four councilors.

B. Basic Financial Statements

Government-wide Financial Statements

The government-wide financial statements (i.e. the statement of net position and the statement of activities) report information on all of the activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by the given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements

The City segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Separate fund statements are presented for governmental and proprietary activities. These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column.

The description of the funds included in this report are as follows:

Governmental Funds

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses and balance of current financial resources. The City has presented the following governmental funds:

Major Governmental Funds:

The General Fund is used to account for and report all financial resources not accounted for and reported in another fund.

CITY OF HOYT LAKES, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Ambulance Special Revenue Fund is used to account for the revenues and expenditures for the operation of the City's ambulance service.

The Stern Companies Debt Service Fund is used to account for and report financial resources that are restricted for debt service and economic development related to Stern Companies' lease of a City building.

The Ranger ATV Capital Projects Fund is used to account for the capital expenditures relating to the Ranger ATV Trail project.

Nonmajor Governmental Funds:

Special Revenue Funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects.

Debt Service Funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditures for principal and interest.

Capital Projects Funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Capital projects funds exclude those types of capital-related outflows financed by proprietary funds.

Proprietary Funds

Proprietary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of net income, financial position and cash flow. All assets and liabilities are included on the statement of net position. The City has presented the following proprietary funds:

Major Proprietary Funds:

The Water Enterprise Fund is used to account for revenues generated from the charges for distribution of water to the residential and commercial users of the City.

The Sewer Enterprise Fund is used to account for revenues generated from the charges for wastewater treatment services provided to the residential and commercial users of the City.

The Sanitation Enterprise Fund is used to account for revenues generated from the charges for refuse removal and recycling services provided to the residential and commercial users of the City.

C. Measurement Focus and Basis of Accounting and Financial Presentation

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

CITY OF HOYT LAKES, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The government-wide statements and fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net assets and the operating statements present increases (revenues) and decreases (expenses) in net position. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized at the time the liability is incurred. Property taxes are generally recognized as revenues in the fiscal year for which they are levied. Grants and similar items are recognized when all requirements imposed by the provider have been met.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed. Depreciation expense can be specifically identified by program and is included in the direct expenses of each program. Interest on long-term debt is considered an indirect expense and is reported separately on the statement of activities. Generally, the effect of material interfund activity has been removed from the government-wide financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both "measurable and available"). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers property taxes as available if they are collected within 60 days after year end. Grant revenue is recorded in the year in which the related expenditure is made. Other revenue is considered available if collected within one year. Expenditures are generally recorded when a liability is incurred. However, expenditures are recorded as prepaid for approved disbursements incurred in advance of the year in which the item or service is to be used and debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

CITY OF HOYT LAKES, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Change in Accounting Principle

In June 2017, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 87, Leases. This standard requires the recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and as inflows of resources or outflows of resources recognized based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this standard, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The City adopted the requirements of the guidance effective January 1, 2022, and has elected to apply the provisions of this standard to the beginning of the period of adoption. The City's recognition of beginning balances related to the lease liability and intangible right-to-use asset, as well as the lease receivable and deferred inflow of resources were equal balances and had no effect on the beginning net position or fund balance, as applicable.

E. Cash and Cash Equivalents

For the purpose of the statement of cash flows, cash and cash equivalents are defined as cash on hand, demand deposits and short-term investments purchased with a maturity of three months or less.

F. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Fund Balances

- 1) Cash balances for all funds of the City are maintained on a combined basis and invested to the extent possible, in allowable short-term investments. All investments are stated at fair value.
- 2) Receivables from and payable to external parties are reported separately and are not offset in the proprietary fund financial statements and business-type activities of the government-wide financial statements, unless a right of offset exists.
- 3) The City determines if an arrangement is a lease at inception. Leases are included in lease receivables and deferred inflows of resources in the statement of net position and fund financial statements.

Lease receivables represent the City's claim to receive lease payments over the lease term, as specified in the contract, in an exchange or exchange-like transaction. Lease receivables are recognized at commencement date based on the present value of expected lease payments over the lease term, reduced by any provision for estimated uncollectible amounts. Interest revenue is recognized ratably over the contract term.

Deferred inflows of resources related to leases are recognized at the commencement date based on the initial measurement of the lease receivable, plus any payments received from the lessee at or before the commencement of the lease term that relate to future periods, less any lease incentives paid to, or on behalf of, the lessee at or before the commencement of

CITY OF HOYT LAKES, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

the lease term. The deferred inflows of resources related to leases are recognized as lease revenue in a systematic and rational manner over the lease term.

The City has elected to recognize payments for short-term leases with a lease term of 12 months or less as revenues as incurred, and these leases are not included as lease receivables and deferred inflows of resources on the statement of net position and fund financial statements.

- 4) The City has no significant inventories in the General Fund and records supplies and materials as expenditures when purchased. Enterprise Funds' inventories are valued at cost, on a first-in, first-out (FIFO) basis, and the cost of these inventories are recorded as expenditures when consumed rather than when purchased.
- 5) Restricted assets are investments whose use is limited by legal requirements such as a debt covenant. Restricted assets are reported only in the government-wide financial statements and proprietary fund type statement of net position.
- 6) Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances". Outstanding balances between funds are reported as "due to/from other funds".

Legally authorized transfers are treated as interfund transfers and are included in the results of operations of both Governmental and Proprietary Funds.

- 7) Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.
- 8) Capital assets, which include land, construction in progress, land improvements, infrastructure, buildings, machinery and equipment, and licensed vehicles, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the proprietary fund financial statements.

Capital assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their acquisition value at the date of donation. General infrastructure assets acquired prior to January 1, 2004, are not reported in the basic financial statements. The City maintains a threshold level of \$5,000 or more for capitalizing all capital assets. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are depreciated using the straight-line method over their estimated useful lives. When assets are no longer needed by the City, such assets are either disposed of if it is determined there is no value, or sold for an immaterial amount. Useful lives vary from 20 to 50 years for land improvements, infrastructure and buildings, and 5 to 30 years for machinery and equipment, and licensed vehicles. Capital assets not being depreciated include land and construction in progress.

CITY OF HOYT LAKES, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- 9) The City determines if an arrangement is a lease at inception. Leases are included in right-to-use assets and lease liabilities in the statement of net position.

Right-to-use assets represent the City's control of the right to use an underlying capital asset for the lease term, as specified in the contract, in an exchange or exchange like transaction. Right-to-use assets are recognized at the commencement date based on the initial measurement of the lease liability, plus any payments made to the lessor at or before the commencement date of the lease term and certain direct costs. Right-to-use assets are amortized in a systematic and rational manner over the shorter of the lease term or the useful life of the underlying asset.

Lease liabilities represent the City's obligation to make lease payments arising from the lease. Lease liabilities are recognized at the commencement date based on the present value of expected lease payments over the lease term, less any lease incentives. Interest expense is recognized ratably over the contract term.

The lease term may include options to extend or terminate the lease when it is reasonably certain that the City will exercise that option.

The City has recognized payments for short-term leases with a lease term of twelve months or less of expenses incurred, as these leases are not included as lease liabilities or right-to-use assets on the statements of net position.

The City accounts for contracts containing both lease and non-lease components as separate contracts when possible. In cases where the contract does not provide separate price information for lease and non-lease components, and it is impractical to eliminate the price of such components, the City treats the components as a single lease unit.

- 10) Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The City has two items in this category, related to other postemployment benefits and related to pensions. See Notes 8, 15, and 16 for details.

- 11) Government-wide financial statements report unearned revenue in connection with resources that have been received, but not yet earned. Governmental funds report unearned revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period and resources that have been received, but not yet earned.

Delinquent property taxes receivable, less any delinquent taxes that are to be received within 60 days, are recorded as deferred inflows of resources in the fund financial statements because they are not available to finance the current year operations of the City.

- 12) In the government-wide financial statements and proprietary fund type financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bonds payable are reported net of the applicable bond premium or discount. Debt issuance costs are expensed in the period incurred. The long-term liabilities consist primarily

CITY OF HOYT LAKES, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

of general obligation bonds, general obligation revenue bonds and notes payable, lease revenue bonds, a loan, financed purchases, and other postemployment benefits and severance payable.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures. Payment of principal and interest, along with severance pay and postemployment benefits, are recognized as expenditures when paid.

- 13) For purposes of measuring the net pension liability and asset, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA, except that PERA's fiscal year end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments, and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.
- 14) Deferred inflows of resources represent an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The City has three items that qualify for reporting in this category. One item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources: property taxes, which is reported in the general fund, and leases, which is reported in the Stern Companies debt service fund. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The second type of deferred inflow of resources is related to pensions. See Notes 15 and 16 for details.
- 15) Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources in the government-wide financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, and right-to-use assets, net of accumulated amortization, reduced by the outstanding balance of any long-term debt and liabilities used to build or acquire the capital or right-to-use assets. Net position is reported as restricted in the government-wide financial statement when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

In the fund financial statements, proprietary fund equity is classified the same as in the government-wide statements. Fund balances of the governmental funds represent the difference between the current assets and deferred outflows of resources, and current liabilities and deferred inflows of resources. Fund balances of the governmental funds are classified as follows:

CITY OF HOYT LAKES, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Nonspendable—amounts that cannot be spent either because they are in nonspendable form, such as inventory and prepaid items, or because they are legally or contractually required to be maintained intact.

Restricted—amounts that can be spent only for specific purposes because of enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed—amounts that can be used only for specific purposes determined by a formal action of the City Council. The City Council is the highest level of decision-making authority for the City. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the City Council.

Assigned—amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. The City Council or an individual or committee authorized by the City Council may assign amounts for specific purposes.

Unassigned—all other spendable amounts. The City's fund balance policy is for the General Fund to maintain an unassigned fund balance amount of at least 20% of the subsequent year's budgeted expenditures. The City was not in compliance with their fund balance policy at December 31, 2022.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the City Council has provided otherwise in its commitment or assignment actions.

G. Revenues and Expenditures

- 1) The property tax calendar in Minnesota follows the calendar year. Property tax levies are certified to the County Auditor in December of each year for collection from taxpayers in May and October of the following calendar year. In Minnesota, counties act as collection agents for all property taxes. The county spreads all levies over taxable property. Property taxes become a lien on the property the following January 1. The county generally remits taxes to the City at periodic intervals as they are collected. A portion of property taxes levied is paid by the State of Minnesota through various tax credits, which are included in revenue from state sources in the financial statements.

Federal, state, and other revenues are reported under the legal and contractual requirements of the individual programs and are classified into essentially two types of revenues. In one, monies must be expended for the specific purpose before any amounts will be paid to the City; therefore, revenues are recognized based on expenditures recorded. In the other, monies are virtually unrestricted as to purpose of expenditure, and the resources are recorded as revenue at the time of receipt or earlier if they are available.

CITY OF HOYT LAKES, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- 2) City employees earn vacation and sick leave based on years of service and union and employment contracts. Vacation time must be used annually. A liability for unused vacation is recognized in the government-wide and fund financial statements. A percentage of accumulated unused sick leave will be paid as severance pay upon retirement.
- 3) As provided in union and employment contracts, qualified employees meeting minimum age and length of service requirements may be eligible for certain other postemployment benefits directly from the City.

H. 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 and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Fund Deficit

The following fund had a deficit balance at December 31, 2022:

Ranger ATV Capital Projects Fund \$ 15,751

The deficit occurred because current year expenditures exceeded revenues. The City plans to eliminate the deficit through future revenues or transfers.

NOTE 3 - CASH AND CASH EQUIVALENTS AND INVESTMENTS

The City's funds are combined (pooled) and invested to the extent available in various investments authorized by Minnesota State statutes. This pool of the City functions essentially as a demand account for all participating funds. Each fund's portion of this pool is displayed on the financial statements as "cash and cash equivalents." Several funds hold cash and investments separate from the cash and investment pool.

"Cash and cash equivalents" recorded are comprised of:

Petty cash	\$	150
Cash		2,133,416
Certificates of deposit		920,000
Escrow savings		<u>45,570</u>
		<u>\$ 3,099,136</u>

CITY OF HOYT LAKES, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

NOTE 3 - CASH AND CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)

Reconciliation to financial statements:

Statement of Net Position	
Cash and cash equivalents	\$ 3,053,566
Restricted cash and cash equivalents	<u>45,570</u>
Total	<u>\$ 3,099,136</u>

Deposits

Custodial Credit Risk – Deposits

Custodial credit risk for deposits is the risk, that in the event of the failure of a depository financial institution, the City will not be able to recover its deposits. The City's investment policy does not address custodial credit risk.

The City maintains deposits at financial institutions 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. State statutes authorize the types of securities which may be pledged as collateral and require that those securities be held in safekeeping by the City or in a financial institution other than that furnishing the collateral. At year-end, the carrying amount of the City's deposits, which includes certificates of deposit, was \$3,098,986; the bank balance was \$3,388,581. Of the bank balance, \$2,120,713 was insured and \$1,267,868 was collateralized with securities held by the pledging financial institution's agent in the City's name.

Investments

Custodial Credit Risk – Investments

For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or securities that are in the possession of an outside party. The City's investment policy states that investments and securities are to be secured through third-party custody and safekeeping procedures. Bearer instruments shall be held only through third-party institutions.

Credit Risk and Concentration of Credit Risk

The City's investment policy requires safety and principal preservation as its foremost objectives. State statutes authorize the City to invest in qualified repurchase agreements, obligations of the U.S. government, obligations of the State of Minnesota or its municipalities, shares of certain investment companies, bankers' acceptance notes, commercial paper and guaranteed investment contracts.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The City's policy is to require diversification in its investments.

CITY OF HOYT LAKES, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

NOTE 3 - CASH AND CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of investments will adversely affect the fair value of an investment. The City's investment policy states that the portfolio shall be designed to attain a market average rate of return, throughout budgetary and economic cycles, taking into account investment risk constraints and cash flow.

Fair Value of Investments

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The three levels of the fair value hierarchy are as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs (other than quoted prices included within level 1) that are observable for the asset or liability – either directly or indirectly.
- Level 3: Unobservable inputs – market data are not available and are developed using the best information available about the assumptions that market participants would use when pricing an asset or liability.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

As of December 31, 2022, the City had no investments.

CITY OF HOYT LAKES, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2022

NOTE 4 - CAPITAL AND RIGHT-TO-USE ASSETS

Capital and right-to-use asset activity for the year ended December 31, 2022, was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental activities				
Capital assets, not being depreciated:				
Land	\$ 445,000	\$ -	\$ -	\$ 445,000
Construction in progress	2,391,375	566,747	(2,473,783)	484,339
Total capital assets, not being depreciated	<u>2,836,375</u>	<u>566,747</u>	<u>(2,473,783)</u>	<u>929,339</u>
Capital assets, being depreciated:				
Land improvements	364,135	-	-	364,135
Infrastructure	2,983,998	924,932	-	3,908,930
Buildings	7,899,034	128,237	-	8,027,271
Machinery and equipment	2,611,225	132,763	(69,739)	2,674,249
Licensed vehicles	1,495,424	287,588	(148,930)	1,634,082
Total capital assets, being depreciated	<u>15,353,816</u>	<u>1,473,520</u>	<u>(218,669)</u>	<u>16,608,667</u>
Less accumulated depreciation for:				
Land improvements	(237,427)	(11,182)	-	(248,609)
Infrastructure	(1,590,212)	(158,408)	-	(1,748,620)
Buildings	(3,722,975)	(203,043)	-	(3,926,018)
Machinery and equipment	(2,114,599)	(123,094)	64,882	(2,172,811)
Licensed vehicles	(1,330,353)	(58,991)	148,930	(1,240,414)
Total accumulated depreciation	<u>(8,995,566)</u>	<u>(554,718)</u>	<u>213,812</u>	<u>(9,336,472)</u>
Total capital assets, being depreciated, net	<u>6,358,250</u>	<u>918,802</u>	<u>(4,857)</u>	<u>7,272,195</u>
Right-to-use assets, being amortized:				
Leased machinery and equipment	-	87,498	-	87,498
Less accumulated amortization for:				
Leased machinery and equipment	-	-	-	-
Total right-to-use assets, being amortized, net	<u>-</u>	<u>87,498</u>	<u>-</u>	<u>87,498</u>
Governmental activities capital and right-to-use assets, net	<u>\$ 9,194,625</u>	<u>\$1,573,047</u>	<u>\$(2,478,640)</u>	<u>\$ 8,289,032</u>
Business-type activities				
Capital assets, not being depreciated:				
Land	\$ 40,000	\$ -	\$ -	\$ 40,000
Construction in progress	7,651,559	2,922,114	(4,119)	10,569,554
Total capital assets, not being depreciated	<u>7,691,559</u>	<u>2,922,114</u>	<u>(4,119)</u>	<u>10,609,554</u>
Capital assets, being depreciated:				
Infrastructure	5,124,761	1,306,143	-	6,430,904
Buildings	3,369,851	-	-	3,369,851
Machinery and equipment	359,092	-	-	359,092
Licensed vehicles	181,223	215,427	(53,986)	342,664
Total capital assets, being depreciated	<u>9,034,927</u>	<u>1,521,570</u>	<u>(53,986)</u>	<u>10,502,511</u>
Less accumulated depreciation for:				
Infrastructure	(540,414)	(215,488)	-	(755,902)
Buildings	(2,241,253)	(80,645)	-	(2,321,898)
Machinery and equipment	(336,051)	(3,248)	-	(339,299)
Licensed vehicles	(149,326)	(25,892)	53,986	(121,232)
Total capital assets, being depreciated	<u>(3,267,044)</u>	<u>(325,273)</u>	<u>53,986</u>	<u>(3,538,331)</u>
Total capital assets, being depreciated, net	<u>5,767,883</u>	<u>1,196,297</u>	<u>-</u>	<u>6,964,180</u>
Business-type activities capital assets, net	<u>\$13,459,442</u>	<u>\$4,118,411</u>	<u>\$(4,119)</u>	<u>\$17,573,734</u>

CITY OF HOYT LAKES, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

NOTE 4 - CAPITAL AND RIGHT-TO-USE ASSETS (CONTINUED)

Depreciation and amortization expense was charged to functions/programs of the City as follows:

Governmental activities

General government	\$ 55,764
Public safety	159,871
Public works	167,707
Culture and recreation	<u>171,376</u>
Total depreciation and amortization expense - governmental activities	<u>\$ 554,718</u>

Business-type activities

Water	\$ 89,951
Sewer	<u>235,322</u>
Total depreciation and amortization expense - business-type activities	<u>\$ 325,273</u>

NOTE 5 - LEASE RECEIVABLE

The City, acting as lessor, leases a building under a long-term, cancellable lease agreement. The lease carries a discount rate of 1.99% expiring August 24, 2023, with the lessee's option to extend the agreement an additional five years. During 2022, the City recognized \$60,522 and \$15,311 in lease revenue and interest revenue, respectively, pursuant this contract.

Total future minimum lease payments to be received under the lease agreements, assuming the option to extend is exercised, are as follows:

Year-Ending December 31,	Long-Term Leases Receivable	
	Principal	Interest
2023	\$ 79,398	\$ 13,936
2024	92,805	12,195
2025	94,668	10,332
2026	96,569	8,431
2027	98,508	6,492
2028	<u>272,771</u>	<u>3,573</u>
Total	<u>\$ 734,719</u>	<u>\$ 54,959</u>

CITY OF HOYT LAKES, MINNESOTA

**NOTES TO FINANCIAL STATEMENTS
December 31, 2022**

NOTE 6 - LONG-TERM LIABILITIES

In prior years, the City issued general obligation bonds to finance the cost of the construction and equipping of an emergency services building. The bonds are to be repaid by applicable resources. The City has also issued general obligation bonds to refund bonds and to purchase a new fire truck. The bonds are to be repaid with applicable resources. The City entered into financed purchase agreements to purchase mowers for the golf course. One purchase was paid off in 2022 and the other will be paid with applicable resources. The mowers secure the financed purchase agreements. The City previously entered into a loan agreement with the IRRRB for economic development. The City used loan proceeds to purchase a building for business development. The City will use rent payments received from the business to repay the IRRRB loan. The City also issued \$1,840,000 general obligation disposal system and water revenue bonds, \$1,376,828 general obligation revenue note, and \$326,000 temporary general obligation revenue note to finance the wastewater treatment plant renovation project. The notes and bonds are to be repaid with net revenues of the Sewer and Water Enterprise Funds. The \$326,000 temporary general obligation revenue note was paid off in 2022. The City also issued \$2,185,000 general obligation tax abatement and utility revenue bonds to finance street and utility construction projects. These bonds will be paid with ad valorem property taxes and net revenues from the City's utility system. For governmental activities, claims and judgements are generally liquidated by the general fund.

In 2020, the City issued a \$1,846,371 general obligation revenue note with Minnesota Public Facilities Authority (MPFA) for the wastewater treatment plant renovation project. As of December 31, 2022, the City had drawn \$1,660,301 on the note. The note is to be repaid with net revenues of the Sewer Enterprise Fund.

Components of long-term liabilities are as follows:

	<u>Issue Date</u>	<u>Interest Rates</u>	<u>Original Issue</u>	<u>Final Maturity</u>	<u>Principal Outstanding</u>
Governmental activities					
General Obligation Tax Abatement and Utility Revenue Bonds, Series 2020B	05/12/2020	2.35%	\$ 1,070,000	02/01/2041	\$ 1,030,000
General Obligation Capital Improvement Plan Bonds, Series 2016A	06/30/2016	1.00-3.00%	\$ 1,825,000	03/01/2039	1,405,000
General Obligation Bonds Series 2013B	11/01/2013	0.80-2.65%	\$ 840,000	03/01/2023	75,000
State of Minnesota Loan 2018 IRRRB	08/09/2018	0%	\$ 850,000	08/08/2028	<u>727,500</u>
					<u>3,237,500</u>
Financed Purchase Toro Groundmaster	03/17/2020	4.90%	\$ 19,882	03/17/2024	<u>8,129</u>
Governmental activities long-term liabilities					<u>\$ 3,245,629</u>

CITY OF HOYT LAKES, MINNESOTA

**NOTES TO FINANCIAL STATEMENTS
December 31, 2022**

NOTE 6 - LONG-TERM LIABILITIES (CONTINUED)

	Issue Date	Interest Rates	Original Issue	Final Maturity	Principal Outstanding
Business-type activities					
General Obligation Revenue Note 2020 MPFA Clean Water	10/28/2020	1.00%	\$ 1,660,301	08/20/2050	\$ 1,557,931
General Obligation Tax Abatement and Utility Revenue Bonds, Series 2020B	05/12/2020	2.35%	\$ 1,115,000	02/01/2041	1,070,000
General Obligation Revenue Note 2018 MPFA Clean Water	11/28/2018	1.00%	\$ 1,376,828	08/20/2038	1,123,000
General Obligation Disposal System and Water Revenue Bonds, Series 2017A	03/01/2017	1.55-3.30%	\$ 1,840,000	02/01/2038	<u>1,625,000</u>
Business-type activities long-term liabilities					<u>5,375,931</u>
Total Long-Term Liabilities					<u>\$ 8,621,560</u>

Long-term liability activity for the year ended December 31, 2022 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Governmental activities					
Bonds Payable					
2020B GO Tax Abatement and Utility Revenue	\$ 2,185,000	\$ -	\$ 1,155,000	\$ 1,030,000	\$ 45,000
2016A GO Capital Improvement Plan	1,475,000	-	70,000	1,405,000	70,000
2013B GO	<u>195,000</u>	<u>-</u>	<u>120,000</u>	<u>75,000</u>	<u>75,000</u>
Total Bonds Payable	<u>3,855,000</u>	<u>-</u>	<u>1,345,000</u>	<u>2,510,000</u>	<u>190,000</u>
State of Minnesota Loan					
2018 IRRRB	<u>762,500</u>	<u>-</u>	<u>35,000</u>	<u>727,500</u>	<u>-</u>
Financed Purchases					
Toro Groundmaster	11,911	-	3,782	8,129	3,967
Toro Reelmaster	<u>5,582</u>	<u>-</u>	<u>5,582</u>	<u>-</u>	<u>-</u>
Total Financed Purchases	<u>17,493</u>	<u>-</u>	<u>9,364</u>	<u>8,129</u>	<u>3,967</u>
Governmental activities - long-term liabilities	<u>\$ 4,634,993</u>	<u>\$ -</u>	<u>\$ 1,389,364</u>	<u>\$ 3,245,629</u>	<u>\$ 193,967</u>

CITY OF HOYT LAKES, MINNESOTA

**NOTES TO FINANCIAL STATEMENTS
December 31, 2022**

NOTE 6 - LONG-TERM LIABILITIES (CONTINUED)

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Business-type activities					
Bonds and Notes Payable					
2020A GO Revenue Note					
MPFA Clean Water	\$ 1,136,750	\$ 475,181	\$ 54,000	\$ 1,557,931	\$ 54,000
2020B GO Tax Abatement and Utility Revenue					
	-	1,115,000	45,000	1,070,000	45,000
2020A Temporary GO Utility Revenue Note					
	326,000	-	326,000	-	-
2018 GO Revenue Note					
MPFA Clean Water	1,187,000	-	64,000	1,123,000	65,000
2017A GO Disposal System and Water Revenue Bonds					
	<u>1,705,000</u>	<u>-</u>	<u>80,000</u>	<u>1,625,000</u>	<u>80,000</u>
Total Bonds and Notes Payable	<u>4,354,750</u>	<u>1,590,181</u>	<u>569,000</u>	<u>5,375,931</u>	<u>244,000</u>
Business-type activities - long-term liabilities	<u>\$ 4,354,750</u>	<u>\$ 1,590,181</u>	<u>\$ 569,000</u>	<u>\$ 5,375,931</u>	<u>\$ 244,000</u>

No interest was capitalized during 2022; interest incurred and charged to expense totaled \$162,389.

Minimum annual principal and interest payments required to retire long-term liabilities, excluding lease liabilities, severance payable, OPEB, and net pension liabilities are as follows:

Year Ending December 31	Governmental Activities		Business-type Activities		Government wide	
	Principal	Interest	Principal	Interest	Principal	Interest
2023	\$ 193,967	\$ 58,449	\$ 244,000	\$ 88,652	\$ 437,967	\$ 147,101
2024	119,162	55,137	251,000	93,873	370,162	149,010
2025	115,000	52,720	256,000	89,875	371,000	142,595
2026	120,000	50,336	258,000	85,760	378,000	136,096
2027	125,000	47,778	264,000	81,414	389,000	129,192
2028-2032	660,000	196,804	1,394,000	335,105	2,054,000	531,909
2033-2037	730,000	113,067	1,553,000	194,154	2,283,000	307,221
2038-2042	455,000	21,159	793,000	54,258	1,248,000	75,417
2043-2047	-	-	338,000	18,684	338,000	18,684
2048-2052	<u>-</u>	<u>-</u>	<u>24,931</u>	<u>1,899</u>	<u>24,931</u>	<u>1,899</u>
Total	<u>\$2,518,129</u>	<u>\$ 595,449</u>	<u>\$5,375,931</u>	<u>\$1,043,674</u>	<u>\$7,894,060</u>	<u>\$1,639,123</u>

The 2018 IRRRB loan is not included in the above schedule because loan payments are only due when lease payments are received.

CITY OF HOYT LAKES, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

NOTE 6 - LONG-TERM LIABILITIES (CONTINUED)

Pledged Revenues

Governmental Funds

The City has pledged special assessments, net revenues from the City's utility system and ad valorem property taxes, to pay the General Obligation bonds issued in 2013. Principal and interest of \$123,577 was paid during 2022. At December 31, 2022, principal and interest on the bond to be paid to maturity in 2023 totals \$75,994. In 2022, bond payments were funded solely by ad valorem property taxes.

The City has pledged net revenues from the City's utility system and ad valorem property taxes to pay the General Obligation Tax Abatement and Utility Revenue bonds issued in 2020. Proceeds from the bonds were used to finance street and utility reconstruction projects. Upon project completion in 2022, the utility portion totaling \$1,115,000 was moved to the enterprise funds. Principal and interest of \$65,145 was paid on the governmental portion during 2022. At December 31, 2022, principal and interest to be paid to maturity in 2041 totaled \$1,288,152.

Enterprise Funds

The City has pledged net revenues of the Water Enterprise Fund and Sewer Enterprise Fund to pay principal and interest on the \$1,840,000 general obligation disposal system water revenue bonds issued in 2017. Proceeds from these bonds were used to finance the wastewater treatment plant renovation project. Principal and interest of \$126,275 was paid during 2022. At December 31, 2022, principal and interest to be paid to maturity in 2038 totaled \$2,075,032.

The City has pledged net revenues of the Sewer Enterprise Fund to pay principal and interest on the \$1,376,828 MPFA general obligation revenue note issued in 2018. Proceeds from these bonds were used to finance the wastewater treatment plant renovation project. Principal and interest of \$75,870 was paid during 2022. At December 31, 2022, principal and interest to be paid to maturity in 2038 totaled \$1,220,880.

The City has pledged net revenues of the Sewer Enterprise Fund to pay principal and interest on the \$326,000 temporary general obligation utility revenue note issued in 2020. Proceeds from these bonds were used to finance the wastewater treatment plant renovation project. Principal and interest of \$334,519 was paid during 2022. The note was paid off as of December 31, 2022.

The City has pledged net revenues from the City's utility system and ad valorem property taxes to pay the General Obligation Tax Abatement and Utility Revenue bonds issued in 2020. Proceeds from the bonds were used to finance street and utility reconstruction projects. Upon project completion in 2022, the utility portion totaling \$1,115,000 was moved to the enterprise funds. Principal and interest of \$70,293 was paid on the enterprise portion during 2022. At December 31, 2022, principal and interest to be paid to maturity in 2041 totaled \$1,338,725.

The City has pledged net revenues of the Sewer Enterprise Fund to pay principal and interest on the \$1,846,371 MPFA general obligation revenue note issued in 2020. Proceeds from these bonds were used to finance the wastewater treatment plant renovation project. Principal and interest of \$65,337 was paid during 2022. At December 31, 2022, principal and interest to be paid to maturity in 2050 totaled \$1,784,968. As of December 31, 2022, the City had drawn \$1,660,301 on the note.

CITY OF HOYT LAKES, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2022

NOTE 7 - LEASE LIABILITY

The City, as lessee, leases golf carts under a long-term, noncancelable lease agreement. The lease expires October 7, 2027. The City's lease activity for the year-ended December 31, 2022 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Lease liability	\$ -	\$ 87,498	\$ -	\$ 87,498

Minimum annual principal and interest payments require to retire the lease are as follows:

Year-Ending December 31,	Lease Liability	
	Principal	Interest
2023	\$ 16,382	\$ 2,887
2024	16,923	2,347
2025	17,481	1,788
2026	18,058	1,211
2027	18,654	616
Total	\$ 87,498	\$ 8,849

NOTE 8 - OTHER POSTEMPLOYMENT BENEFITS

Plan Description

The City operates a single-employer retiree benefit plan that provides postemployment health insurance benefits to eligible employees and their spouses. The City reported its plan in accordance with GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which requires the liability of the City's defined benefit OPEB (net OPEB liability) to be measured as the portion of the present value of projected benefit payments to be provided to current active and inactive employees that is attributed to those employees' past periods of service (total OPEB liability), less the amount of the OPEB plan's fiduciary net position. The City elected to report the value of their net OPEB liability in accordance with the Alternative Measurement Method prescribed by GASB 75 for employers with under 100 plan participants. The liability is reported on the City's government-wide financial statements.

Benefits Provided

Benefits and eligibility are established and amended through contracts with bargaining units or other employment contracts. Participants meeting certain eligibility requirements receive a City direct subsidy toward their health insurance premium.

CITY OF HOYT LAKES, MINNESOTA

**NOTES TO FINANCIAL STATEMENTS
December 31, 2022**

NOTE 8 - OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Plan Membership

At December 31, 2021, plan membership consisted of the following:

Active employees electing coverage	18
Active employees waiving coverage	0
Retirees electing coverage	14
	32
	32

Contributions

The City and retirees make contributions toward health insurance premiums based on their employment contracts. During the year ended December 31, 2022, the City pays postemployment benefits on a pay-as-you-go method. Contributions into individual health accounts for current employees are also paid on a pay-as-you go method. The City has not advance-funded or established a funding methodology. The City will continue to contribute towards the medical premium for grandfathered retirees and current employees who retire at or above age 57 with 20 years of service on or after March 1, 2004. The contribution amount is either part of or the full amount of the medical premium and continues for the life of most retirees.

Total OPEB Liability

The City's total OPEB liability of \$756,904 was measured as of December 31, 2021, and was determined by an actuarial valuation as of that date.

Actuarial Methods and Assumptions

The total OPEB liability was determined by an actuarial valuation as of December 31, 2021, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Discount rate	1.84%
Long-term expected investment return	N/A
Inflation rate	2.25%
Mortality - general employees	From the July 1, 2021 PERA of Minnesota General Employees Retirement Plan actuarial valuation, Pub-2010 mortality tables with projected mortality improvements based on scale MP-2020, and other adjustments.
Health care cost trend rate	6.2% for FY2022, gradually decreasing over several decades to an ultimate rate of 3.7% in FY2074 and later years.

The discount rate was based on the Fidelity 20-Year Municipal GO AA Index because it meets the GASB requirements and is based on a large amount of municipal security data.

The City has elected to use the GASB 75 "lookback" method where assets and liabilities are measured as of the prior fiscal year-end, but applied to the current fiscal year. The measurement date (when assets and liabilities are measured) is December 31, 2021. The valuation date (census) is December 31, 2021.

CITY OF HOYT LAKES, MINNESOTA

**NOTES TO FINANCIAL STATEMENTS
December 31, 2022**

NOTE 8 - OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at 12/31/2021	\$ 832,104
Changes for the year:	
Service cost	22,454
Interest	16,553
Differences between expected and actual experience	(60,468)
Changes of assumptions	59
Benefit payments paid directly	(53,798)
Net changes	(75,200)
Balance at 12/31/2022	\$ 756,904

Discount Rate

The discount rate used to measure the total OPEB liability was 1.84%, a decrease from the 2.00% discount rate measured as of December 31, 2021.

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of the City, as well as what the City's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (0.84%) or 1-percentage-point higher (2.84%) than the current discount rate.

	1% Decrease (0.84%)	Current Discount Rate (1.84%)	1% Increase (2.84%)
Total OPEB liability	\$ 847,710	\$ 756,904	\$ 681,796

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following represents the net OPEB liability of the City, as well as what the City's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates.

	1% Decrease	Current Trend Rates	1% Increase
Total OPEB liability	\$ 751,087	\$ 756,904	\$ 763,415

CITY OF HOYT LAKES, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

NOTE 8 - OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended December 31, 2022, the City recognized OPEB expense of \$(78,540). At December 31, 2022, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions between measurement date and reporting date	\$ 44,472	\$ -

The amount reported as deferred outflows of resources will be recognized in OPEB expense for the year ending December 31, 2023.

NOTE 9 - INTERFUND BALANCES AND ACTIVITY

The composition of interfund balances as of December 31, 2022, is as follows:

Due to/from other funds –

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Ranger ATV Capital Projects Fund	\$ 47,372
General Fund	Sanitation Enterprise Fund	74,438
	Total	<u>\$ 121,810</u>

The balances resulted from the elimination of the deficit cash balances in the Ranger ATV Capital Projects Fund and the Sanitation Enterprise Fund.

Interfund transfers for the year ended December 31, 2022, consisted of the following:

	<u>Transfer In</u>	<u>Transfer Out</u>
Governmental Funds		
General Fund	\$ 18,770	\$ 294,385
Ambulance Special Revenue Fund	-	12,770
Nonmajor Governmental Funds	<u>294,385</u>	<u>-</u>
Total Governmental Funds	<u>313,155</u>	<u>307,155</u>
Enterprise Funds		
Water Enterprise Fund	-	3,000
Sewer Enterprise Fund	<u>-</u>	<u>3,000</u>
Total Enterprise Funds	<u>-</u>	<u>6,000</u>
Total	<u>\$ 313,155</u>	<u>\$ 313,155</u>

CITY OF HOYT LAKES, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

NOTE 9 - INTERFUND BALANCES AND ACTIVITY (CONTINUED)

The nonmajor debt service funds receive transfers to cover debt service repayments. Transfers to the general fund were made to cover administrative costs and annual OPEB requirements. Transfers out of the general fund were made to fund cash deficits. Water and sewer transfers were made for annual OPEB requirements.

NOTE 10 - FUND EQUITY

As of December 31, 2022, fund balances are comprised of the following:

	General Fund	Ambulance Special Revenue Fund	Stern Companies Debt Service Fund	Ranger ATV Capital Projects Fund	Nonmajor Governmental Funds	Total
Nonspendable:						
Prepaid Items	\$ 59,194	\$ 17,124	\$ -	\$ -	\$ -	\$ 76,318
Restricted:						
Debt Service	-	-	108,512	-	-	108,512
Committed:						
Capital Projects	241,001	-	-	-	122,437	363,438
OPEB	60,000	-	-	-	-	60,000
Ambulance	-	470,868	-	-	-	470,868
Ambulance - Vehicles	-	282,104	-	-	-	282,104
Ambulance - Equipment	-	111,804	-	-	-	111,804
Cemetery	-	-	-	-	45,175	45,175
Total Committed	<u>301,001</u>	<u>864,776</u>	<u>-</u>	<u>-</u>	<u>167,612</u>	<u>1,333,389</u>
Assigned:						
Buildings	230,000	-	-	-	-	230,000
Equipment	23,000	-	-	-	-	23,000
Fire Wildfire	28,769	-	-	-	-	28,769
Fisherman's Point	130,000	-	-	-	-	130,000
Grant Match	50,000	-	-	-	-	50,000
Memorial Trees	-	-	-	-	100	100
Total Assigned	<u>461,769</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>100</u>	<u>461,869</u>
Unassigned	<u>342,710</u>	<u>-</u>	<u>-</u>	<u>(15,751)</u>	<u>-</u>	<u>326,959</u>
Total fund balances	<u>\$ 1,164,674</u>	<u>\$ 881,900</u>	<u>\$ 108,512</u>	<u>\$ (15,751)</u>	<u>\$ 167,712</u>	<u>\$ 2,307,047</u>

CITY OF HOYT LAKES, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

NOTE 11 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To cover these risks of loss, the City, as allowed under state statutes, joined the League of Minnesota Cities Insurance Trust Fund, a public entity risk pool currently operating as a common risk management and insurance program for its member cities. The City pays annual premiums to the Trust Fund for its insurance coverage and retains the risk for the deductible portions of the insurance. The League of Minnesota Cities Insurance Trust Fund is self-sustaining through member premiums and reinsures through commercial companies for claims in excess of the limits as set by the Trustees. There were no significant increases or reductions in insurance from the previous year. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

NOTE 12 - OTHER COMMITMENTS AND CONTINGENCIES

Grants

The City participates in grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of any money received may be required. In the opinion of the City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

Youth Activities Coordinator Agreement

On April 1, 2019, the City entered into an agreement with the City of Aurora, Minnesota; the City of Biwabik, Minnesota; Independent School District No. 2711, Mesabi East Schools; and the Town of White, Minnesota, for a Youth Activities Coordinator. The Coordinator will be an employee of Independent School District No. 2711, Mesabi East Schools, and will direct and coordinate all community activities for children throughout each one of the agreement parties. The agreement will end on December 31, 2024. The City contributed \$10,000 during 2022 to Independent School District No. 2711, Mesabi East Schools, for the agreement.

Construction Projects

The City had the following outstanding construction projects as of December 31, 2022. The projects are evidenced by contractual commitments with contractors and includes:

<u>Project</u>	<u>Spent to Date</u>	<u>Commitments Remaining</u>
Wastewater Project Phase 3	\$ 10,569,554	\$ 742,220
Campground Bathroom Project	\$ 469,634	\$ 257,318

CITY OF HOYT LAKES, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

NOTE 12 - OTHER COMMITMENTS AND CONTINGENCIES (CONTINUED)

COVID-19 Pandemic

In December 2019, a novel strain of coronavirus was reported in Wuhan, China. The World Health Organization has declared the outbreak to constitute a “Public Health Emergency of International Concern.” The COVID-19 outbreak is disrupting supply chains and affecting production and sales across a range of industries. Due to the unknown breadth and duration of this pandemic, the impact of COVID-19 on the City’s future operational and financial performance cannot be determined at this time and has not been reflected in the accompanying financial statements.

NOTE 13 - JOINT VENTURES

East Range Joint Powers Board

The East Range Joint Powers Board was formed pursuant to Minn. Stat. §471.59, and includes the cities of Aurora, Hoyt Lakes, and Biwabik, and the Town of White. The purpose of the Board is to provide an organization through which local units of government in the East Range area may jointly and cooperatively coordinate and facilitate future planning for development.

The East Range Joint Powers Board is governed by a Board of Directors which is composed of one member from each party. In the event the Board is terminated by mutual agreement, any surplus monies shall be returned to such parties in the same proportion which funds have been contributed to the Board.

All parties to this agreement share equally in the annual operating costs of the Board. During 2022, the City of Hoyt Lakes, Minnesota, contributed \$15,000 to the East Range Joint Powers Board. Complete financial information can be obtained from the East Range Joint Powers Board, City Hall, Aurora, Minnesota 55705.

East Range Public Safety Board

In 2015, the City entered into a joint powers agreement with the City of Aurora, Minnesota to provide the parties with public safety services including law enforcement and emergency management. Each city council appoints two members to serve on the East Range Public Safety Board. A staff liaison is appointed by a majority vote of each council.

The agreement automatically renews January 1 of each successive year, unless a City files a notice of withdrawal. If a City withdraws, the City will retain its fair share of the current value of the assets of the Department, reduced by the amount of unfunded liabilities or unpaid expenses as of the end of the calendar year.

The City of Hoyt Lakes contributed monthly payments of \$45,800 for a total contribution of \$549,600 to the Board in 2022. Complete financial information can be obtained from the East Range Public Safety Board, 206 Kennedy Memorial Drive, Hoyt Lakes, MN 55750.

CITY OF HOYT LAKES, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

NOTE 14 - SEVERANCE BENEFITS

Upon retirement, the City provides most retirees a severance amount based on accumulated unused sick leave hours and rate of pay at the date of retirement, as established by contracts with bargaining units and other employment agreements. The agreements establish the terms for this severance amount, which may vary between bargaining units or employee groups. At December 31, 2022, the City was liable for \$31,106 to current employees. During the year, the City did not expend any funds for this benefit.

NOTE 15 - DEFINED BENEFIT PENSION PLAN

A. Plan Description

The City participates in the following cost-sharing multiple-employer defined benefit pension plan administered by the Public Employees Retirement Association (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.

B. Benefits Provided

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

General Employees Plan Benefits

General Employees Plan benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for Coordinated members is 1.2 percent for each of the first 10 years of service and 1.7 percent for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7 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 1.5 percent. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase. Recipients receiving the annuity or benefit for at least

CITY OF HOYT LAKES, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2022

NOTE 15 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

one month but less than a full year as of the June 30 before the effective date of the increase will receive a reduced prorated increase. For members retiring on January 1, 2024, or later, the increase will be delayed until normal retirement age (age 65 if hired prior to July 1, 1989, or age 66 for individuals hired on or after July 1, 1989). Members retiring under Rule of 90 are exempt from the delay to normal retirement.

C. Contributions

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

General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in fiscal year 2022 and the City was required to contribute 7.50 percent for Coordinated Plan members. The City's contributions to the General Employees Retirement Fund for the year ended December 31, 2022, were \$99,922. The City's contributions were equal to the required contributions as set by state statute.

D. Pension Costs

General Employees Fund Pension Costs

At December 31, 2022, the City reported a liability of \$1,354,326 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 \$39,702.

The net pension liability was measured as of June 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportionate share of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2021 through June 30, 2022, relative to the total employer contributions received from all of PERA's participating employers. The City's proportionate share was 0.0171 percent at the end of the measurement period and 0.0154 percent for the beginning of the period.

City's proportionate share of the net pension liability	\$ 1,354,326
State of Minnesota's proportionate share of the net pension liability associated with the City	<u>39,702</u>
Total	<u>\$ 1,394,028</u>

There were no provision changes during the measurement period.

CITY OF HOYT LAKES, MINNESOTA

**NOTES TO FINANCIAL STATEMENTS
December 31, 2022**

NOTE 15 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

For the year ended December 31, 2022, the City recognized pension expense of \$209,745 for its proportionate share of the General Employees Plan's pension expense. In addition, the City recognized an additional \$5,932 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, 2022, the City reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 11,312	\$ 12,969
Changes in actuarial assumptions	276,957	4,703
Net collective difference between projected and actual investment earnings	67,399	-
Changes in proportion	89,487	-
Contributions paid to PERA subsequent to the measurement date	53,964	-
Total	\$ 499,119	\$ 17,672

The \$53,964 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2023. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31:	Pension Expense Amount
2023	\$ 159,673
2024	\$ 153,192
2025	\$ (7,859)
2026	\$ 122,477

Total Pension Expense

The total pension expense for all plans recognized by the City for the year ended December 31, 2022 was \$243,187

E. 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:

CITY OF HOYT LAKES, MINNESOTA

**NOTES TO FINANCIAL STATEMENTS
December 31, 2022**

NOTE 15 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

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	25.0%	5.90%
Total	100%	

F. Actuarial Methods and Assumptions

The total pension liability in the June 30, 2022 actuarial valuation was determined using an individual entry-age normal actuarial cost method. The long-term rate of return on pension plan investments used in the determination of the total liability is 6.5 percent. This assumption is based on a review of inflation and investments return assumptions from a number of national investment consulting firms. The review provided a range of return investment return rates deemed to be reasonable by the actuary. An investment return of 6.5 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. Benefit increases after retirement are assumed to be 1.25 percent for the General Employees Plan.

Salary growth assumptions in the General Employees Plan range in annual increments from 10.25 percent after one year of service to 3.0 percent after 27 years of service.

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

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

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

General Employees Fund

Changes in Actuarial Assumptions:

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

Changes in Plan Provisions:

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

CITY OF HOYT LAKES, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

NOTE 15 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

G. Discount Rate

The discount rate for the General Employees Plan used to measure the total pension liability in 2022 was 6.50 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Fund was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

H. 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		
1% Lower	5.50%	\$	2,139,228
Current Discount Rate	6.50%	\$	1,354,326
1% Higher	7.50%	\$	710,584

I. Pension Plan Fiduciary Net Position

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

NOTE 16 - DEFINED BENEFIT PENSION PLAN – FIRE DEPARTMENT

Plan Description

The Hoyt Lakes Fire Department participates in the Statewide Volunteer Firefighter Retirement Plan (accounted for in the Volunteer Firefighter Fund), an agent multiple-employer lump-sum defined benefit pension plan administered by the Public Employees Retirement Association of Minnesota (PERA). The Volunteer Firefighter Plan covers volunteer firefighters of municipal fire departments or independent nonprofit firefighting corporations that have elected to join the plan. As of December 31, 2022, the plan covered twenty active firefighters and ten vested terminated firefighters whose pension benefits are deferred. The plan is established and administered in accordance with *Minnesota Statutes*, Chapter 353 G.

CITY OF HOYT LAKES, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2022

NOTE 16 - DEFINED BENEFIT PENSION PLAN – FIRE DEPARTMENT (CONTINUED)

Benefits Provided

The Volunteer Firefighter Plan provides retirement, death, and supplemental benefits to covered firefighters and survivors. Benefits are paid based on the number of years of service multiplied by a benefit level approved by the City. Members are eligible for a lump-sum retirement benefit at 50 years of age with five years of service. Plan provisions include a pro-rated vesting schedule that increases from 5 years at 40 percent through 20 years at 100 percent.

Contributions

The Volunteer Firefighter Plan is funded by fire state aid, investment earnings and, if necessary, employer contributions as specified in *Minnesota Statutes*, and voluntary City contributions. The State of Minnesota contributed \$15,706 in fire state aid to the fund for the year ended December 31, 2022. Required employer contributions are calculated annually based on statutory provisions. No City contributions were required in 2022.

Pension Costs

At December 31, 2022, the City reported a net pension asset of \$56,290 for the Volunteer Firefighter Fund. The net pension asset was measured as of December 31, 2022. The total pension liability used to calculate the net pension asset in accordance with GASB 68 was determined by PERA applying an actuarial formula to specific census data certified by the fire department. The following table presents the changes in net pension liability during the year.

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
	(a)	(b)	(a-b)
Beginning Balance 12/31/21	\$ 301,072	\$ 442,860	\$ (141,788)
Changes for the Year			
Service Cost	19,001	-	19,001
Interest on Pension Liability	17,674	-	17,674
Actuarial Experience (Gains)/Losses	(16,819)	-	(16,819)
Projected Investment Earnings	-	26,572	(26,572)
Changes in Benefit Level	12,416	-	12,416
Contributions (State)	-	15,706	(15,706)
Asset (Gain)/Loss	-	(94,726)	94,726
Benefit Payouts	(51,000)	(51,000)	-
Administrative Costs	-	(778)	778
Net Changes	(18,728)	(104,226)	85,498
Balance End of Year 12/31/22	\$ 282,344	\$ 338,634	\$ (56,290)

Benefit provision changes during the measurement period amounted to \$12,416.

For the year ended December 31, 2022 the City recognized pension expense of \$27,134.

CITY OF HOYT LAKES, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2022

NOTE 16 - DEFINED BENEFIT PENSION PLAN – FIRE DEPARTMENT (CONTINUED)

At December 31, 2022 the City reported deferred inflows of resources and deferred outflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Actuarial Experience Gains/Losses	\$ 36,156	\$ 32,650
Difference Between Projected and Actual Investment Earnings	46,820	-
Total	\$ 82,976	\$ 32,650

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

Year Ended December 31:	Pension Expense Amount
2023	\$ 357
2024	\$ 9,365
2025	\$ 25,021
2026	\$ 15,583

Actuarial Assumptions

The total pension liability at December 31, 2022, was determined using the entry age normal actuarial cost method and the following actuarial assumptions:

- Retirement eligibility at the later of age 50 or 20 years of service
- Investment rate of return of 6.0 percent
- Inflation rate of 3.0 percent

There were no changes in actuarial assumptions in 2022.

Discount Rate

The discount rate used to measure the total pension liability was six percent. The projection of cash flows used to determine the discount rate assumed that contributions to the Volunteer Firefighter Fund will be made as specified in statute. Based on that assumption and considering the funding ratio of the plan, the fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Pension Liability/(Asset) Sensitivity

The following presents the City's net pension asset for the Volunteer Firefighter Fund, calculated using the assumed discount rate as well as what the City's net pension asset would be if it were calculated using a discount rate one percent lower or one percent higher than the current discount rate:

CITY OF HOYT LAKES, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

NOTE 16 - DEFINED BENEFIT PENSION PLAN – FIRE DEPARTMENT (CONTINUED)

	1% Decrease in Discount Rate (5.0%)	Discount Rate (6.0%)	1% Increase in Discount Rate (7.0%)
Net Pension Asset	\$ (42,811)	\$ (56,290)	\$ (69,563)

Plan Investments

Investment Policy:

The Minnesota State Board of Investment (SBI) is established by Article XI of the Minnesota Constitution to invest all state funds. Its membership as specified in the Constitution is comprised of the governor (who is designated as chair of the board), state auditor, secretary of state and state attorney general.

All investments undertaken by the SBI are governed by the prudent person rule and other standards codified in *Minnesota Statutes*, Chapter 11A and Chapter 353G.

Within the requirements defined by state law, the SBI, with assistance of the SBI staff and the Investment Advisory Council, establishes investment policy for all funds under its control. These investments policies are tailored to the particular needs of each fund and specify investment objectives, risk tolerance, asset allocation, investment management structure and specific performance standards. Studies guide the on-going management of the funds and are updated periodically.

Asset Allocation:

To match the long-term nature of the pension obligations, the SBI maintains a strategic asset allocation for the Volunteer Firefighter Plan that includes allocations to domestic equity, international equity, bonds and cash equivalents. The long-term target asset allocation and long-term expected real rate of return is the following:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Stocks	35%	5.10%
International Stocks	15%	5.30%
Bonds	45%	0.75%
Unallocated Cash	5%	0.00%

The six percent long-term expected rate of return on pension plan investments was determined using a building-block method. Best estimates for expected future real rates of return (expected returns, net of inflation) were developed for each asset class using both long-term historical returns and long-term capital market expectations from a number of investment management and consulting organizations. The asset class estimates and the target allocations were then combined to produce a geometric, long-term expected real rate of return for the portfolio. Inflation expectations were applied to derive the nominal rate of return for the portfolio.

CITY OF HOYT LAKES, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

NOTE 16 - DEFINED BENEFIT PENSION PLAN – FIRE DEPARTMENT (CONTINUED)

Description of significant investment policy changes during the year: The SBI made no significant changes to their investment policy during fiscal year 2022 for the Volunteer Firefighter Fund.

Pension Plan Fiduciary Net Position

Detailed information about the Volunteer Firefighter Fund's fiduciary net position as of June 30, 2022, is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained at www.mnpera.org.

NOTE 17 - VOLUNTARY EMPLOYEE BENEFIT ASSOCIATION (VEBA)

Beginning in 2009, and each year thereafter, the City contributes to eligible employees' VEBA accounts established for that purpose. In 2022, City contribution amounts were \$2,500 and \$5,000 for single coverage and family coverage, respectively. The City contributes half on January 1 and half of July 1. Any employees who incur medical expenses greater than the balance of their VEBA account are entitled to an advance of the balance of the annual City VEBA contribution. Employer contributions into eligible employee's accounts were \$71,250 for the year ended December 31, 2022.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF HOYT LAKES, MINNESOTA

GENERAL FUND
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
 Year Ended December 31, 2022

	Budgeted Amounts		Actual Amounts, Budgetary Basis	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 2,016,066	\$ 2,016,066	\$ 1,783,663	\$ (232,403)
Licenses and permits	5,000	5,000	7,819	2,819
Intergovernmental	1,139,481	1,139,481	1,264,542	125,061
Charges for services	354,635	354,635	367,307	12,672
Fines	-	-	1,449	1,449
Gifts and contributions	600	600	6,640	6,040
Interest	12,000	12,000	6,414	(5,586)
Miscellaneous	-	-	61,258	61,258
TOTAL REVENUES	<u>3,527,782</u>	<u>3,527,782</u>	<u>3,499,092</u>	<u>(28,690)</u>
EXPENDITURES				
Current				
General government	794,370	794,370	708,042	86,328
Public safety	645,768	645,768	716,743	(70,975)
Public works	862,748	862,748	770,412	92,336
Culture and recreation	711,925	711,925	885,087	(173,162)
Economic development	25,000	25,000	18,855	6,145
Debt Service				
Principal	-	-	9,364	(9,364)
Interest and other charges	-	-	840	(840)
Capital Outlay				
General government	156,500	156,500	29,273	127,227
Public safety	10,000	10,000	9,862	138
Public works	44,000	44,000	46,552	(2,552)
Culture and recreation	360,772	360,772	527,857	(167,085)
TOTAL EXPENDITURES	<u>3,611,083</u>	<u>3,611,083</u>	<u>3,722,887</u>	<u>(111,804)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(83,301)</u>	<u>(83,301)</u>	<u>(223,795)</u>	<u>(140,494)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	7,500	7,500	18,770	11,270
Transfers out	-	-	(294,385)	(294,385)
Lease liability issuance	-	-	87,498	87,498
TOTAL OTHER FINANCING SOURCES (USES)	<u>7,500</u>	<u>7,500</u>	<u>(188,117)</u>	<u>(195,617)</u>
NET CHANGE IN FUND BALANCES	(75,801)	(75,801)	(411,912)	(336,111)
FUND BALANCES - JANUARY 1	<u>1,576,586</u>	<u>1,576,586</u>	<u>1,576,586</u>	<u>-</u>
FUND BALANCES - DECEMBER 31	<u>\$ 1,500,785</u>	<u>\$ 1,500,785</u>	<u>\$ 1,164,674</u>	<u>\$ (336,111)</u>

See notes to required supplementary information.

CITY OF HOYT LAKES, MINNESOTA

AMBULANCE SPECIAL REVENUE FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
Year Ended December 31, 2022

	Budgeted Amounts		Actual Amounts, Budgetary Basis	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 41,600	\$ 41,600	\$ 110,999	\$ 69,399
Charges for services	682,500	682,500	717,769	35,269
Gifts and contributions	-	-	7,500	7,500
Interest	9,000	9,000	3,118	(5,882)
Miscellaneous	3,000	3,000	10,662	7,662
TOTAL REVENUES	<u>736,100</u>	<u>736,100</u>	<u>850,048</u>	<u>113,948</u>
EXPENDITURES				
Current				
Public safety	1,001,463	1,001,463	792,305	209,158
Capital Outlay				
Public safety	150,000	150,000	151,694	(1,694)
TOTAL EXPENDITURES	<u>1,151,463</u>	<u>1,151,463</u>	<u>943,999</u>	<u>207,464</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(415,363)	(415,363)	(93,951)	321,412
OTHER FINANCING SOURCES (USES)				
Transfers out	-	-	(12,770)	(12,770)
Sale of capital assets	-	-	21,500	21,500
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>	<u>8,730</u>	<u>8,730</u>
NET CHANGE IN FUND BALANCES	(415,363)	(415,363)	(85,221)	330,142
FUND BALANCES - JANUARY 1	<u>967,121</u>	<u>967,121</u>	<u>967,121</u>	<u>-</u>
FUND BALANCES - DECEMBER 31	<u>\$ 551,758</u>	<u>\$ 551,758</u>	<u>\$ 881,900</u>	<u>\$ 330,142</u>

See notes to required supplementary information.

CITY OF HOYT LAKES, MINNESOTA

SCHEDULE OF CHANGES IN THE CITY'S NET OPEB LIABILITY AND RELATED RATIOS
Year Ended December 31, 2022

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Total OPEB Liability					
Service cost	\$ 22,454	\$ 18,289	\$ 12,840	\$ 12,697	\$ 10,757
Interest	16,553	21,816	22,690	21,561	24,363
Differences between expected and actual experience	(60,468)	(9,595)	106,821	-	-
Changes of assumptions	59	55,048	90,037	(21,176)	27,397
Benefit payments	<u>(53,798)</u>	<u>(56,916)</u>	<u>(55,364)</u>	<u>(50,693)</u>	<u>(54,344)</u>
Net change in OPEB liability	(75,200)	28,642	177,024	(37,611)	8,173
Total OPEB Liability - beginning	<u>832,104</u>	<u>803,462</u>	<u>626,438</u>	<u>664,049</u>	<u>655,876</u>
Total OPEB Liability - ending	<u>\$ 756,904</u>	<u>\$ 832,104</u>	<u>\$ 803,462</u>	<u>\$ 626,438</u>	<u>\$ 664,049</u>
Payroll for measurement period	\$ 1,226,767	\$ 1,204,926	\$ 1,021,321	\$ 1,002,288	\$ 1,486,530
Net OPEB Liability as a % of employee payroll	61.7%	69.1%	78.7%	62.5%	44.7%

Schedule is intended to show a ten year trend. Additional years will be reported as they become available.

See notes to required supplementary information.

CITY OF HOYT LAKES, MINNESOTA

**SCHEDULES OF CITY'S PROPORTIONATE SHARE OF NET PENSION LIABILITY AND
CITY'S CONTRIBUTIONS FOR DEFINED BENEFIT PENSION PLAN
December 31, 2022**

**SCHEDULE OF CITY'S PROPORTIONATE SHARE OF NET PENSION LIABILITY
PUBLIC EMPLOYEES GENERAL EMPLOYEES RETIREMENT FUND**

Fiscal Year Ending	Employer's Proportionate Share (Percentage) of the Net Pension Liability (Asset)	Employer's Proportionate Share (Amount) of the Net Pension Liability (Asset) (a)	State's Proportionate Share (Amount) of the Net Pension Liability Associated with City (b)	Employer's Proportionate Share of the Net Pension Liability and the State's Proportionate Share of the Net Pension Liability Associated with City (a+b)	Employer's Covered Payroll (c)	Employer'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
6/30/22	0.0171%	\$ 1,354,326	\$ 39,702	\$ 1,394,028	\$ 1,283,956	108.57%	76.70%
6/30/21	0.0154%	\$ 657,649	\$ 20,121	\$ 677,770	\$ 1,108,909	61.12%	87.00%
6/30/20	0.0146%	\$ 875,337	\$ 26,902	\$ 902,239	\$ 1,038,157	86.91%	79.10%
6/30/19	0.0138%	\$ 762,971	\$ 23,666	\$ 786,637	\$ 966,585	81.38%	80.20%
6/30/18	0.0129%	\$ 715,639	\$ 23,433	\$ 739,072	\$ 868,424	85.10%	79.50%
6/30/17	0.0129%	\$ 823,527	\$ 10,356	\$ 833,883	\$ 831,071	100.34%	75.90%
6/30/16	0.0128%	\$ 1,039,297	\$ 13,503	\$ 1,052,800	\$ 798,821	131.79%	68.91%
6/30/15	0.0135%	\$ 699,640	\$ -	\$ 699,640	\$ 780,947	89.59%	78.19%

Note: This schedule is provided prospectively beginning with the fiscal year ended December 31, 2015.

Note: For purposes of this schedule, covered payroll is defined as "pensionable wages".

**SCHEDULE OF CITY'S CONTRIBUTIONS
PUBLIC EMPLOYEES GENERAL EMPLOYEES RETIREMENT FUND**

Fiscal Year Ending	Statutorily Required Contribution (a)	Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (d)	Contributions as a Percentage of Covered Payroll (b/d)
12/31/22	\$ 99,922	\$ 99,922	\$ -	\$ 1,332,297	7.50%
12/31/21	\$ 94,536	\$ 94,536	\$ -	\$ 1,260,478	7.50%
12/31/20	\$ 77,902	\$ 77,902	\$ -	\$ 1,038,693	7.50%
12/31/19	\$ 76,441	\$ 76,441	\$ -	\$ 1,019,211	7.50%
12/31/18	\$ 67,743	\$ 67,743	\$ -	\$ 903,236	7.50%
12/31/17	\$ 63,653	\$ 63,653	\$ -	\$ 848,701	7.50%
12/31/16	\$ 60,948	\$ 60,948	\$ -	\$ 812,644	7.50%
12/31/15	\$ 59,483	\$ 59,483	\$ -	\$ 793,107	7.50%

Note: This schedule is provided prospectively beginning with the fiscal year ended December 31, 2015.

Note: For purposes of this schedule, covered payroll is defined as "pensionable wages".

See notes to required supplementary information.

CITY OF HOYT LAKES, MINNESOTA

SCHEDULE OF CHANGES IN NET PENSION LIABILITY/ASSET
Year Ended December 31, 2022

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY/ASSET
HOYT LAKES VOLUNTEER FIRE DEPARTMENT

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Total Pension Liability							
Service cost	\$ 19,001	\$ 16,598	\$ 14,212	\$ 13,315	\$ 13,075	\$ 13,598	\$ 14,956
Interest on the pension liability	17,674	15,172	14,509	13,449	13,774	14,204	13,737
Actuarial experience (gains)/losses	(16,819)	60,259	(45,064)	(5,844)	(15,497)	(1,967)	(4,049)
Changes in benefit level	12,416	-	56,395	-	-	-	-
Benefit payments	<u>(51,000)</u>	<u>(54,440)</u>	<u>(8,316)</u>	<u>-</u>	<u>(34,000)</u>	<u>(31,000)</u>	<u>-</u>
Net Change in Total Pension Liability	(18,728)	37,589	31,736	20,920	(22,648)	(5,165)	24,644
Total Pension Liability - Beginning	<u>301,072</u>	<u>263,483</u>	<u>231,747</u>	<u>210,827</u>	<u>233,475</u>	<u>238,640</u>	<u>213,996</u>
Total Pension Liability - Ending (a)	<u>\$ 282,344</u>	<u>\$ 301,072</u>	<u>\$ 263,483</u>	<u>\$ 231,747</u>	<u>\$ 210,827</u>	<u>\$ 233,475</u>	<u>\$ 238,640</u>
Plan Fiduciary Net Position							
Contributions:							
Fire state aid	\$ 11,404	\$ 11,169	\$ 10,856	\$ 10,431	\$ 10,355	\$ 11,502	\$ 9,544
Fire supplemental aid	2,302	2,347	2,396	2,415	2,464	2,496	2,315
Supplemental benefit reimbursement	2,000	756	-	1,000	1,000	-	1,000
Required municipal contribution	-	-	-	-	-	-	2,992
Adjustment to initial asset transfer	-	-	-	-	-	-	279
Net investment income	(68,154)	39,703	56,239	57,968	(12,126)	39,927	20,379
PERA administrative fee	(750)	(720)	(870)	(870)	(840)	(840)	(840)
SBI investment fee	(28)	(24)	16	(58)	(19)	(18)	(20)
Benefit payments	<u>(51,000)</u>	<u>(54,440)</u>	<u>(8,316)</u>	<u>-</u>	<u>(34,000)</u>	<u>(31,000)</u>	<u>-</u>
Net Change in Plan Fiduciary Net Position	(104,226)	(1,209)	60,321	70,886	(33,166)	22,067	35,649
Plan Fiduciary Net Position - Beginning	<u>442,860</u>	<u>444,069</u>	<u>383,748</u>	<u>312,862</u>	<u>346,028</u>	<u>323,961</u>	<u>288,312</u>
Plan Fiduciary Net Position - Ending (b)	<u>\$ 338,634</u>	<u>\$ 442,860</u>	<u>\$ 444,069</u>	<u>\$ 383,748</u>	<u>\$ 312,862</u>	<u>\$ 346,028</u>	<u>\$ 323,961</u>
Net Pension Liability/(Asset) - Ending (a) - (b)	<u>\$ (56,290)</u>	<u>\$ (141,788)</u>	<u>\$ (180,586)</u>	<u>\$ (152,001)</u>	<u>\$ (102,035)</u>	<u>\$ (112,553)</u>	<u>\$ (85,321)</u>
Plan Fiduciary Net Position as a Percentage Of the Total Pension Liability	119.9%	147.1%	168.5%	165.6%	148.4%	148.2%	135.8%

This schedule is built prospectively until it contains ten years of data.

See notes to required supplementary information.

CITY OF HOYT LAKES, MINNESOTA

SCHEDULE OF CITY CONTRIBUTIONS

Year Ended December 31, 2022

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION

SCHEDULE OF CITY CONTRIBUTIONS

HOYT LAKES VOLUNTEER FIRE DEPARTMENT

	<u>2022</u>		<u>2021</u>		<u>2020</u>		<u>2019</u>		<u>2018</u>		<u>2017</u>		<u>2016</u>
Actuarially determined contribution	\$ -		\$ -		\$ -		\$ -		\$ -		\$ -		\$ 2,992
Actual contributions paid	-		-		-		-		-		-		2,992
Contribution deficiency/(excess)	<u>\$ -</u>		<u>\$ -</u>		<u>\$ -</u>		<u>\$ -</u>		<u>\$ -</u>		<u>\$ -</u>		<u>\$ -</u>

The annual required contributions of the municipality and State are determined by statute.

Because all active plan members are volunteers, there is no actual payroll.

This schedule is built prospectively until it contains ten years of data.

See notes to required supplementary information.

CITY OF HOYT LAKES, MINNESOTA

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
December 31, 2022**

NOTE 1 - BUDGETING

The City Administrator prepares a proposed budget for the City's funds on the same basis as the fund financial statements. The City Council adopts an annual budget for the fiscal year for all of the City's funds. Legal budgetary control is at the fund account level; management control is exercised at line-item levels. Budget appropriations lapse at year end, if unexpended. Budgeted amounts are as originally adopted or as amended by the City Council. The Schedules of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund and Ambulance Special Revenue present comparisons of budgetary data to actual results.

NOTE 2 - EXCESS OF EXPENDITURES OVER BUDGET

Expenditures exceeded appropriations in the following fund for the year ended December 31, 2022:

General Fund	<u>\$ 111,804</u>
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The overexpenditures were funded by existing fund balance.

NOTE 3 - POSTEMPLOYMENT BENEFIT PLAN ACTUARIAL ASSUMPTIONS AND METHODS

December 31, 2021 Measurement Date Changes

The following valuation change has been made:

- There is no longer an implicit subsidy liability because premiums are now age based.

The following assumption changes have been made:

- The discount rate was changed from 2.00% to 1.84% based on updated 20-year municipal bond rates.
- Healthcare trend rates were reset to reflect updated cost increase expectations.
- Withdrawal, mortality, and salary increase rates were updated from the rates used in the 7/1/2019 PERA General Employees Plan valuation to the rates used in the 7/1/2021 valuation.
- The inflation assumption was changed from 2.50% to 2.25% based on an updated historical analysis of inflation rates and forward-looking market expectations.

December 31, 2020 Measurement Date Changes

The benefits, assumptions and methods valued in the December 31, 2020 measurement date actuarial report are based on the same plan provisions, assumptions and methods described in the fiscal 2020 GASB 75 valuation report dated October 7, 2020, with the exception of the change listed below.

- The discount rate was adjusted from 2.75 percent to 2.00 percent.

December 31, 2019 Measurement Date Changes

The following valuation change has been made:

- Retiree premiums were updated to current levels.

CITY OF HOYT LAKES, MINNESOTA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
December 31, 2022

NOTE 3 - POSTEMPLOYMENT BENEFIT PLAN ACTUARIAL ASSUMPTIONS AND METHODS (CONTINUED)

The following assumption changes have been made:

- The discount rate was changed from 3.71 percent to 2.75 percent based on updated 20-year municipal bond rates.
- Healthcare trend rates were reset to reflect updated cost increase expectations, including the repeal of the Affordable Care Act's Excise Tax on high-cost health insurance plans.
- Medical per capita claims costs were updated to reflect recent experience.
- Salary increase rates were updated from the rates used in the 7/1/2017 PERA General and Police & Fire Employees Plan actuarial valuations to the rates used in the 7/1/2019 valuations.
- Mortality rates were updated from the RP-2014 headcount-weighted table to the rates used in the 7/1/2019 PER A General and Police & Fire Employees Plan actuarial valuations.
- The inflation assumption was changed from 2.75 percent to 2.50 percent based on an updated historical analysis of inflation rates and forward-looking market expectations.

December 31, 2018 Measurement Date Changes

The benefits, assumptions and methods valued in the December 31, 2018 measurement date actuarial report are based on the same plan provisions, assumptions and methods described in the fiscal 2018 GASB 75 valuation report dated June 20, 2018, with the exception of the change listed below.

- The discount rate was adjusted from 3.31 percent to 3.71 percent.

December 31, 2017 Measurement Date Change

This is the City's first valuation under the new GASB 75 accounting rules. These new financial reporting requirements substantially adjust the measurement and reporting of OPEB liabilities. The new results are not directly comparable to the City's prior GASB 45 Net OPEB Obligation. Since the last GASB 45 valuation, the following change was made:

- Retiree premiums were updated to current levels.

NOTE 4 - PUBLIC EMPLOYEES GENERAL EMPLOYEES RETIREMENT FUND CHANGES IN ACTUARIAL ASSUMPTIONS AND PLAN PROVISIONS

2022 Changes

Changes in Actuarial Assumptions:

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

Changes in Plan Provisions:

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

2021 Changes

Changes in Actuarial Assumptions:

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

CITY OF HOYT LAKES, MINNESOTA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION December 31, 2022

NOTE 4 - PUBLIC EMPLOYEES GENERAL EMPLOYEES RETIREMENT FUND CHANGES IN ACTUARIAL ASSUMPTIONS AND PLAN PROVISIONS (CONTINUED)

Changes in Plan Provisions:

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

2020 Changes

Changes in Actuarial Assumptions:

- The price inflation assumption was decreased from 2.50% to 2.25%.
- The payroll growth assumption was decreased from 3.25% to 3.00%.
- 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% 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% Joint & Survivor option changed from 35% to 45%. The assumed number of married female new retirees electing the 100% Joint & Survivor option changed from 15% to 30%. 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 2.0% for the period July 1, 2020 through December 31, 2023 and 0.0% 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.

CITY OF HOYT LAKES, MINNESOTA

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
December 31, 2022**

**NOTE 4 - PUBLIC EMPLOYEES GENERAL EMPLOYEES RETIREMENT FUND CHANGES IN
ACTUARIAL ASSUMPTIONS AND PLAN PROVISIONS (CONTINUED)**

2018 Changes

Changes in Actuarial Assumptions:

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

Changes in Plan Provisions:

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

2017 Changes

Changes in Actuarial Assumptions:

- The combined service annuity (CSA) loads were changed from 0.80 percent for active members and 60.00 percent for vested and non-vested deferred members. The revised CSA load are now 0.00 percent for active member liability, 15.00 percent for vested deferred member liability, and 3.00 percent for non-vested deferred member liability.
- The assumed postretirement benefit increase rate was changed for 1.00 percent per year for all years to 1.00 percent per year through 2044 and 2.50 percent per year thereafter.

Changes in Plan Provisions:

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

CITY OF HOYT LAKES, MINNESOTA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
December 31, 2022

**NOTE 4 - PUBLIC EMPLOYEES GENERAL EMPLOYEES RETIREMENT FUND CHANGES IN
ACTUARIAL ASSUMPTIONS AND PLAN PROVISIONS (CONTINUED)**

2016 Changes

Changes in Actuarial Assumptions:

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

Changes in Plan Provisions:

- There have been no changes since the prior valuation.

2015 Changes

Changes in Actuarial Assumptions:

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

Changes in Plan Provisions:

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

SUPPLEMENTARY INFORMATION

NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

The Cemetery Special Revenue Fund is used to account for the revenues and expenditures for the City's cemetery.

The Coronavirus State and Local Fiscal Recovery Funds (SLFRF) Special Revenue Fund is used to account for the revenues received from the American Rescue Plan Act and related expenditures.

Debt Service Funds

Debt service funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

The Colby Ridge Debt Service Fund is used to account for the accumulation of resources for and the payment of long-term debt principal, interest, and related costs for Colby Ridge Development.

The Equipment Debt Service Fund is used to account for the accumulation of resources for the payment of principal, interest, and related costs for the G.O. Equipment Certificates.

The Emergency Services Building Debt Service Fund is used to account for the proceeds and expenditures for principal and interest relating to the Emergency Services Building.

The Suffolk Debt Service Fund is used to account for the accumulation of resources for and the payment of long-term debt principal, interest, and related costs for the Tax Abatement and Utility Revenue Bonds.

Capital Projects Funds

Capital projects funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Capital projects funds exclude those types of capital-related outflows financed by proprietary funds.

The Suffolk Street and Utility Reconstruction Capital Projects Fund is used to account for the capital expenditures relating to the Suffolk Street and utility reconstruction project.

CITY OF HOYT LAKES, MINNESOTA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
December 31, 2022

	Cemetery Special Revenue Fund	Coronavirus State and Local Fiscal Recovery Funds (SLFRF) Special Revenue Fund	Colby Ridge Debt Service Fund	Equipment Debt Service Fund
ASSETS				
Cash and cash equivalents	<u>\$ 45,275</u>	<u>\$ 104,787</u>	<u>\$ -</u>	<u>\$ -</u>
 LIABILITIES AND FUND BALANCES				
LIABILITIES				
Unearned revenue	<u>\$ -</u>	<u>\$ 104,787</u>	<u>\$ -</u>	<u>\$ -</u>
 FUND BALANCES				
Committed	45,175	-	-	-
Assigned	<u>100</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL FUND BALANCES	<u>45,275</u>	<u>-</u>	<u>-</u>	<u>-</u>
 TOTAL LIABILITIES AND FUND BALANCES				
	<u>\$ 45,275</u>	<u>\$ 104,787</u>	<u>\$ -</u>	<u>\$ -</u>

Emergency Services Building Debt Service Fund	Suffolk Debt Service Fund	Suffolk Street and Utility Reconstruction Capital Projects Fund	Total Nonmajor Governmental Funds
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 122,437</u>	<u>\$ 272,499</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 104,787</u>
-	-	122,437	167,612
<u>-</u>	<u>-</u>	<u>-</u>	<u>100</u>
<u>-</u>	<u>-</u>	<u>122,437</u>	<u>167,712</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 122,437</u>	<u>\$ 272,499</u>

CITY OF HOYT LAKES, MINNESOTA

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
Year Ended December 31, 2022

	Cemetery Special Revenue Fund	Coronavirus State and Local Fiscal Recovery Funds (SLFRF) Special Revenue Fund	Colby Ridge Debt Service Fund	Equipment Debt Service Fund
REVENUES				
Intergovernmental	\$ -	\$ 66,461	\$ -	\$ -
Charges for services	<u>13,125</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL REVENUES	<u>13,125</u>	<u>66,461</u>	<u>-</u>	<u>-</u>
EXPENDITURES				
Current				
Miscellaneous	12,874	-	-	-
Debt Service				
Principal	-	-	50,400	69,600
Interest and other charges	-	-	1,834	2,873
Capital Outlay				
General government	-	66,461	-	-
Public works	-	-	-	-
Miscellaneous	<u>17,892</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL EXPENDITURES	<u>30,766</u>	<u>66,461</u>	<u>52,234</u>	<u>72,473</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(17,641)</u>	<u>-</u>	<u>(52,234)</u>	<u>(72,473)</u>
OTHER FINANCING SOURCES				
Transfers in	<u>-</u>	<u>-</u>	<u>52,234</u>	<u>72,473</u>
NET CHANGE IN FUND BALANCES	(17,641)	-	-	-
FUND BALANCES - JANUARY 1	<u>62,916</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES - DECEMBER 31	<u>\$ 45,275</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Emergency Services Building Debt Service Fund	Suffolk Debt Service Fund	Suffolk Street and Utility Reconstruction Capital Projects Fund	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ 66,461
-	-	-	13,125
-	-	-	79,586
-	-	-	12,874
70,000	40,000	-	230,000
34,533	25,145	-	64,385
-	-	-	66,461
-	-	106,415	106,415
-	-	-	17,892
<u>104,533</u>	<u>65,145</u>	<u>106,415</u>	<u>498,027</u>
<u>(104,533)</u>	<u>(65,145)</u>	<u>(106,415)</u>	<u>(418,441)</u>
<u>104,533</u>	<u>65,145</u>	<u>-</u>	<u>294,385</u>
-	-	(106,415)	(124,056)
-	-	<u>228,852</u>	<u>291,768</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 122,437</u>	<u>\$ 167,712</u>

CITY OF HOYT LAKES, MINNESOTA

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
Year Ended December 31, 2022

REVENUES

Taxes

General property	\$ 1,601,506
Taconite homestead credit	127,577
Franchise taxes	<u>54,580</u>
Total Taxes	<u>1,783,663</u>

Licenses and Permits

7,819

Intergovernmental

Federal grants	
American Rescue Plan Act state library grant	5,000
State grants and aids	
Local government aid	435,253
Taconite aids	700,834
Police aid	70,115
Other state grants	52,740
County ambulance aid	<u>600</u>
Total Intergovernmental	<u>1,264,542</u>

Charges for Services

General government	
Lot sales	8,746
Other	21,957
Recreation	
Arena	13,929
Golf Course	75,111
Fisherman's Point	224,868
Library	521
Other	<u>22,175</u>
Total Charges for Services	<u>367,307</u>

Fines

1,449

Gifts and Contributions

Contributions and donations	4,332
Other grants	<u>2,308</u>
Total Gifts and Contributions	<u>6,640</u>

Interest

6,414

Miscellaneous

Reimbursements and refunds	33,701
Other revenue	<u>27,557</u>
Total Miscellaneous	<u>61,258</u>

TOTAL REVENUES

3,499,092

EXPENDITURES

Current

General Government

Council	78,952
Administration	372,149
Attorney	24,523
Planning and zoning	11,226
Buildings	90,593
Other	<u>130,599</u>
Total General Government	<u>708,042</u>

CITY OF HOYT LAKES, MINNESOTA

GENERAL FUND
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 (CONTINUED)
 Year Ended December 31, 2022

EXPENDITURES (CONTINUED)

Public Safety	
Police	\$ 627,298
Fire	82,550
Animal control	6,895
Total Public Safety	<u>716,743</u>
Public Works	
Streets and garage	<u>770,412</u>
Culture and Recreation	
Recreation programs	96,751
Retirees' center	2,441
Arena	348,856
Community building	13,681
Golf Course	131,976
Fishermen's Point	100,175
Library	191,207
Total Culture and Recreation	<u>885,087</u>
Economic Development	
Community development	<u>18,855</u>
Debt Service	
Principal	<u>9,364</u>
Interest and other charges	<u>840</u>
Capital Outlay	
General Government	
Sign	<u>29,273</u>
Public Safety	
Police	4,931
Fire	4,931
Total Public Safety	<u>9,862</u>
Public Works	
Public works - other	<u>46,552</u>
Culture and Recreation	
Golf Course	87,497
Fishermen's Point	440,360
Total Culture and Recreation	<u>527,857</u>
TOTAL EXPENDITURES	<u>3,722,887</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	<u>(223,795)</u>
OTHER FINANCING SOURCES (USES)	
Transfers in	18,770
Transfers out	(294,385)
Lease liability issuance	87,498
TOTAL OTHER FINANCING SOURCES (USES)	<u>(188,117)</u>
NET CHANGE IN FUND BALANCE	(411,912)
FUND BALANCE - JANUARY 1	<u>1,576,586</u>
FUND BALANCE - DECEMBER 31	<u>\$ 1,164,674</u>



CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

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**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**

To the City Council
City of Hoyt 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 (*Government Auditing Standards*), the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Hoyt Lakes, Minnesota as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise City of Hoyt Lakes, Minnesota's basic financial statements, and have issued our report thereon dated May 26, 2023. Our report on the governmental activities, business-type activities, and enterprise funds is qualified because management has declined to allocate the City's proportionate share of the net pension liability and related deferred outflows of resources and deferred inflows of resources of the General Employees Retirement Fund to the business-type activities and enterprise funds of the City as required by accounting principles generally accepted in the United States of America.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Hoyt Lakes, Minnesota's 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 City of Hoyt Lakes, Minnesota's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Hoyt Lakes, Minnesota's internal control.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a

deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as item 2022-002 to be a material weakness.

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 2022-001 to be a significant deficiency.

Report on Compliance and Other Matters

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

Minnesota Legal Compliance

In connection with our audit, we noted that the City of Hoyt Lakes, Minnesota failed to comply with the provisions of the contracting-bid laws 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 2022-003. Also, in connection with our audit, nothing came to our attention that caused us to believe that the City of Hoyt Lakes, Minnesota failed to comply with the provisions of the depositories of public funds and public investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions 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.

Other Matters

We noted certain matters that we reported to management of City of Hoyt Lakes, Minnesota, in a separate letter dated May 26, 2023 included under this cover.

City of Hoyt Lakes, Minnesota's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on City of Hoyt Lakes, Minnesota's response to the findings identified in our audit and described in the accompanying schedule of findings and responses. City of Hoyt Lakes, Minnesota'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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Walker, Miray & Helne, LLC

Virginia, Minnesota

May 26, 2023

CITY OF HOYT LAKES, MINNESOTA

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended December 31, 2022**

Prior Audit Financial Statement Findings

FINDING 2021-001. SEGREGATION OF DUTIES

Summary of Condition

Due to the limited number of personnel within the City's office, the segregation of accounting functions necessary to ensure adequate internal accounting control is not possible.

Summary of Corrective Action Previously Reported

The City Administrator is monitoring transactions and the structure of duties of office personnel to help ensure as much segregation of duties as possible within the City's staffing limitations and funding constraints.

Current Status

Ongoing.

FINDING 2021-002. LACK OF CONTROL OVER FINANCIAL REPORTING PROCESS

Summary of Condition

Management requested that the auditor prepare a draft of the City's financial statements, including related notes to financial statements. Management reviewed, approved, and accepted responsibility for those financial statements prior to their issuance; however, management did not possess the technical expertise to comply with governmental accounting standards.

Summary of Corrective Action Previously Reported

Management determined that the cost and training involved to review or prepare the City's financial statements exceeded the benefit that would result.

Current Status

Ongoing.

CITY OF HOYT LAKES, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended December 31, 2022

2022-001. SEGREGATION OF DUTIES

Criteria

The concentration of duties and responsibilities in a limited number of individuals is not desirable from an internal accounting control point of view.

Condition

Due to the limited number of personnel within the City's business office, the segregation of accounting functions necessary to ensure adequate internal accounting control is not possible.

Effect

Because of the weakness in segregation of duties, the City has not provided adequate internal control.

Cause

This occurred because of staffing limitations caused by fiscal constraints.

Recommendations

City officials and management should constantly be aware of this condition, attempt to segregate duties as much as possible, and provide oversight to partially compensate for this deficiency.

Views of Responsible Officials and Planned Corrective Action

Management agrees with the audit finding. The City Administrator will continue to monitor all transactions and the City's administration will structure the duties of office personnel to help ensure as much segregation of duties as possible within the City's staffing limitations and funding constraints.

2022-002. LACK OF CONTROL OVER FINANCIAL REPORTING PROCESS

Criteria and Condition

As part of the audit, management requested that the auditor prepare a draft of the City's financial statements, including the related notes to financial statements. Management reviewed, approved, and accepted responsibility for those financial statements prior to their issuance; however, management does not possess the technical expertise to comply with governmental accounting standards.

Effect

The potential exists that a material misstatement of the financial statements could occur and not be prevented or detected by the City's internal control.

Cause

This occurred because of staffing limitations caused by fiscal constraints.

Recommendations

In order to provide controls over the financial statement preparation services at an appropriate level, we suggest management establish effective review policies and procedures.

CITY OF HOYT LAKES, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended December 31, 2022

2022-002. LACK OF CONTROL OVER FINANCIAL REPORTING PROCESS (CONTINUED)

Views of Responsible Officials and Planned Corrective Action

Management agrees with the audit finding. Management has determined that the cost and training involved to review or prepare the City's financial statements exceeds the benefit that would result.

MINNESOTA LEGAL COMPLIANCE

2022-003. CONTRACTING - BID LAWS

Criteria

As required by Minn. Statute § 471.345 for contracts estimated to be over \$175,000 the public entity should solicit sealed bids.

Condition

The City purchased equipment over the \$175,000 threshold without soliciting sealed bids.

Effect and Cause

This City purchased equipment for over \$175,000 without soliciting bids. Without solicited sealed bids, the City is not in compliance with Minn. Statute § 471.345.

Recommendations

The City must solicit bids for purchases of equipment that are estimated to be over \$175,000.

Views of Responsible Officials and Planned Corrective Action

Management agrees with the audit finding. In the future, the City will ensure purchases of equipment are made in compliance with Minn. Statute § 471.345.



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**REPRESENTATION OF THE CITY OF HOYT LAKES, MINNESOTA
CORRECTIVE ACTION PLAN
Year Ended December 31, 2022**

Finding Number: 2022-001

Finding Title: SEGREGATION OF DUTIES

Name of Contact Person Responsible for Corrective Action

Rebecca Lammi, City Administrator

Corrective Action Planned

Management will attempt to monitor transactions and structure the duties of office personnel to help ensure as much segregation of duties as possible within the City's staffing limitations and funding constraints.

Anticipated Completion Date

Ongoing.

Finding Number: 2022-002

Finding Title: LACK OF CONTROL OVER FINANCIAL REPORTING PROCESS

Name of Contact Person Responsible for Corrective Action

Rebecca Lammi, City Administrator

Corrective Action Planned

Management has determined that the cost and training involved to review or prepare the City's financial statements exceeds the benefit that would result.

Anticipated Completion Date

Ongoing.

Finding Number: 2022-003

Finding Title: CONTRACTING - BID LAWS

Name of Contact Person Responsible for Corrective Action

Rebecca Lammi, City Administrator



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Corrective Action Planned

The City will ensure purchases of equipment are made in compliance with Minn. Statute § 471.345.

Anticipated Completion Date

May 26, 2023.

A handwritten signature in blue ink, appearing to read "Rebecca Lammi", is written over a horizontal line.

Rebecca Lammi, City Administrator



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MANAGEMENT LETTER

To the City Council
City of Hoyt Lakes, Minnesota

In planning and performing our audit of the financial statements of City of Hoyt Lakes, Minnesota as of and for the year ended December 31, 2022, in accordance with auditing standards generally accepted in the United States of America, we considered City of Hoyt Lakes, Minnesota's internal control over financial reporting (internal control) as a basis for designing auditing 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 report on the governmental activities, business-type activities, and enterprise funds is qualified because management has declined to allocate the City's proportionate share of the net pension liability and related deferred outflows of resources and deferred inflows of resources of the General Employees Retirement Fund to the business-type activities and enterprise funds of the City as required by accounting principles generally accepted in the United States of America.

However, during our audit we became aware of deficiencies in internal control other than significant deficiencies and material weaknesses and matters that are opportunities for strengthening internal controls and operating efficiency. A separate report dated May 26, 2023, included under this cover, contains our communication of significant deficiencies or material weaknesses in the City's internal control. This letter does not affect our report dated May 26, 2023, on the financial statements of City of Hoyt Lakes, Minnesota.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various City personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. Our comments are summarized as follows:

1. The Water Enterprise Fund and the Sanitation Enterprise Fund reported operating losses for the year ended December 31, 2022. The Sanitation Enterprise Fund also had a negative net position at year end. We suggest the City Council review the losses and implement a plan to make the funds profitable and self-sufficient.
2. The unaudited financial statements had a transfer from the Ambulance Special Revenue Fund to the General Fund recorded to partially fund 2022 payments of the 2016A General Obligation Bonds. The transfer was made per the Joint and Cooperative Ambulance Service Agreement for the Cities of Hoyt Lakes and Aurora and the Town of

White. However, per review of the Bonds' Final Official Statement, the bonds' principal and related interest are to be paid from tax levies. This has been corrected by an audit entry. We recommend the City review and amend the Joint and Cooperative Ambulance Service Agreement removing or amending the verbiage regarding this fund transfer.

3. The unaudited financial statements included many non-transfer receipts and disbursements recorded in the transfer codes. Transfer codes should only be used when transferring funds from one fund to another.
4. We recommend the City implement specific cash handling procedures for operating locations outside of City Hall. These could include utilizing prenumbered receipts; collections turned in daily to City Hall; standard forms to recap the date, number and type of services provided, fees collected, and a summarized reconciliation of the day's activity(s) that agrees to the cash delivered to City Hall. We recommend periodic review of the implemented procedures by City administration to ensure adopted policies and best practices are being performed. The City should also encourage as little cash handling outside of City Hall as possible.
5. The City is acting as the fiscal agent for a local recreation club with a grant the club received from St. Louis County. There was no written grant agreement between the club and the County. Additionally, the City did not have a written agreement with the club to act as their fiscal agent. We recommend that all grant and fiscal agent agreements have written contracts.

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

Walker, Miroux & Helne, LLC

Virginia, Minnesota
May 26, 2023