

CITY OF HOYT LAKES, MINNESOTA
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
Year Ended December 31, 2023

CITY OF HOYT LAKES, MINNESOTA

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CITY OF HOYT LAKES, MINNESOTA

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CITY OF HOYT LAKES, MINNESOTA

**ORGANIZATION
December 31, 2023**

CITY COUNCIL

Mayor David Zins

Councilors Stuart Beauregard
Cherie Grams
Deborah Kramar
Brennan Scott

ADMINISTRATION

City Administrator Rebecca Lammi

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, 2023, 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, 2023, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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, 2023, 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.

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 September 27, 2024, 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, Miroux & Helne, LLC

Virginia, Minnesota
September 27, 2024

BASIC FINANCIAL STATEMENTS

CITY OF HOYT LAKES, MINNESOTA

STATEMENT OF NET POSITION
December 31, 2023

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 1,670,927	\$ 801,848	\$ 2,472,775
Taxes receivable	38,069	-	38,069
Accounts receivable	383,798	163,288	547,086
Grants receivable	61,571	-	61,571
Lease receivable	655,321	-	655,321
Internal balances	101,299	(101,299)	-
Inventories	-	36,512	36,512
Prepaid items	88,693	24,992	113,685
Restricted assets			
Restricted cash	43,368	-	43,368
Net pension asset	56,290	-	56,290
Capital assets not being depreciated			
Land	445,000	40,000	485,000
Construction in progress	1,085,721	11,555,519	12,641,240
Capital assets net of accumulated depreciation			
Land improvements	104,346	-	104,346
Infrastructure	1,992,652	5,452,841	7,445,493
Buildings	3,905,687	968,922	4,874,609
Machinery and equipment	460,708	28,347	489,055
Licensed vehicles	327,665	188,359	516,024
Right-to-use assets net of accumulated amortization			
Leased machinery and equipment	35,354	-	35,354
TOTAL ASSETS	11,456,469	19,159,329	30,615,798
DEFERRED OUTFLOWS OF RESOURCES			
Related to other postemployment benefits (OPEB)	44,327	-	44,327
Related to pensions	444,356	-	444,356
TOTAL DEFERRED OUTFLOWS OF RESOURCES	488,683	-	488,683
LIABILITIES			
Accounts payable	3,066	21,750	24,816
Salaries payable	73,063	10,147	83,210
Contracts payable	50,105	-	50,105
Due to other governments	123,796	-	123,796
Customer deposits	300	-	300
Accrued interest payable	21,044	37,756	58,800
Unearned revenues	113,636	-	113,636
Noncurrent liabilities			
Due within one year			
Bonds, loans, notes, and financed purchases	127,731	251,000	378,731
Lease liability	8,583	-	8,583
Due in more than one year			
Bonds, loans, notes, and financed purchases	2,822,033	5,028,989	7,851,022
Lease liability	27,476	-	27,476
Severance benefits	47,098	3,840	50,938
Other postemployment benefits obligation (OPEB)	572,244	-	572,244
Net pension liability	1,034,499	-	1,034,499
TOTAL LIABILITIES	5,024,674	5,353,482	10,378,156
DEFERRED INFLOWS OF RESOURCES			
Related to leases	647,657	-	647,657
Related to pensions	334,007	-	334,007
TOTAL DEFERRED INFLOWS OF RESOURCES	981,664	-	981,664
NET POSITION			
Net investment in capital assets	5,371,310	12,953,999	18,325,309
Restricted for:			
Debt service	184,827	-	184,827
Unrestricted	382,678	851,848	1,234,526
TOTAL NET POSITION	\$ 5,938,815	\$ 13,805,847	\$ 19,744,662

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

CITY OF HOYT LAKES, MINNESOTA

STATEMENT OF ACTIVITIES
Year Ended December 31, 2023

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
PRIMARY GOVERNMENT				
Governmental Activities				
General government	\$ 736,776	\$ 273,634	\$ 139,975	\$ -
Public safety	1,852,748	973,924	254,972	-
Public works	1,074,929	17,925	-	-
Culture and recreation	1,517,768	377,688	121,559	179,819
Economic development	20,506	80,988	-	-
Interest on long-term debt	58,268	-	-	-
Total Governmental Activities	<u>5,260,995</u>	<u>1,724,159</u>	<u>516,506</u>	<u>179,819</u>
Business-type Activities				
Water	687,399	501,956	-	-
Sewer	782,324	860,655	-	829,616
Sanitation	331,140	341,493	-	-
Total Business-type Activities	<u>1,800,863</u>	<u>1,704,104</u>	<u>-</u>	<u>829,616</u>
Total Primary Government	<u>\$ 7,061,858</u>	<u>\$ 3,428,263</u>	<u>\$ 516,506</u>	<u>\$ 1,009,435</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.

Net (Expense) Revenue and Changes in Net Position**Primary Government**

Governmental Activities	Business-type Activities	Total
\$ (323,167)	\$ -	\$ (323,167)
(623,852)	-	(623,852)
(1,057,004)	-	(1,057,004)
(838,702)	-	(838,702)
60,482	-	60,482
(58,268)	-	(58,268)
<u>(2,840,511)</u>	<u>-</u>	<u>(2,840,511)</u>
-	(185,443)	(185,443)
-	907,947	907,947
-	10,353	10,353
-	<u>732,857</u>	<u>732,857</u>
<u>(2,840,511)</u>	<u>732,857</u>	<u>(2,107,654)</u>
1,746,326	-	1,746,326
55,635	-	55,635
1,179,924	-	1,179,924
29,414	11,738	41,152
-	-	-
<u>6,000</u>	<u>(6,000)</u>	<u>-</u>
<u>3,017,299</u>	<u>5,738</u>	<u>3,023,037</u>
176,788	738,595	915,383
<u>5,762,027</u>	<u>13,067,252</u>	<u>18,829,279</u>
<u>\$ 5,938,815</u>	<u>\$ 13,805,847</u>	<u>\$ 19,744,662</u>

CITY OF HOYT LAKES, MINNESOTA

BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2023

	General Fund	Ambulance Special Revenue Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 648,372	\$ 774,526	\$ 291,398	\$ 1,714,296
Taxes receivable	38,069	-	-	38,069
Accounts receivable	6,582	374,698	2,518	383,798
Grants receivable	-	-	61,571	61,571
Lease receivable	-	-	655,321	655,321
Due from other funds	231,924	-	-	231,924
Prepaid items	75,320	13,373	-	88,693
TOTAL ASSETS	\$ 1,000,267	\$ 1,162,597	\$ 1,010,808	\$ 3,173,672
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 3,066	\$ -	\$ -	\$ 3,066
Salaries payable	51,379	21,684	-	73,063
Contacts payable	-	50,105	-	50,105
Due to other governments	116,795	-	7,001	123,796
Due to other funds	-	-	130,625	130,625
Customer deposits	300	-	-	300
Unearned revenue	-	-	113,636	113,636
TOTAL LIABILITIES	171,540	71,789	251,262	494,591
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - property taxes	32,665	-	-	32,665
Related to leases	-	-	647,657	647,657
TOTAL DEFERRED INFLOWS OF RESOURCES	32,665	-	647,657	680,322
FUND BALANCES				
Nonspendable	75,320	13,373	-	88,693
Restricted	-	-	184,827	184,827
Committed	348,293	1,077,435	36,116	1,461,844
Assigned	500,769	-	-	500,769
Unassigned	(128,320)	-	(109,054)	(237,374)
TOTAL FUND BALANCES	796,062	1,090,808	111,889	1,998,759
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 1,000,267	\$ 1,162,597	\$ 1,010,808	\$ 3,173,672

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, 2023**

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

TOTAL FUND BALANCES, GOVERNMENTAL FUNDS		\$ 1,998,759
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	8,321,779	
Right-to-use leased assets, net of accumulated amortization	<u>35,354</u>	
		8,357,133
Other long-term assets are not available to pay current period expenditures and, therefore, are reported as unavailable revenues in the funds.		32,665
Interest payable on long-term debt is susceptible to full accrual on the government-wide statements.		(21,044)
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.		(4,639,664)
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	44,327	
Deferred outflows of resources related to pensions	444,356	
Deferred inflows of resources related to pensions	<u>(334,007)</u>	
		<u>154,676</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES		<u>\$ 5,938,815</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, 2023

	<u>General Fund</u>	<u>Ambulance Special Revenue Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES				
Taxes	\$ 1,800,341	\$ -	\$ -	\$ 1,800,341
Licenses and permits	8,721	-	-	8,721
Intergovernmental	1,385,834	79,742	320,030	1,785,606
Charges for services	462,441	948,164	98,913	1,509,518
Fines	10,486	-	-	10,486
Gifts and contributions	73,517	5,000	12,000	90,517
Interest	6,942	9,582	12,890	29,414
Miscellaneous	169,675	25,761	-	195,436
TOTAL REVENUES	<u>3,917,957</u>	<u>1,068,249</u>	<u>443,833</u>	<u>5,430,039</u>
EXPENDITURES				
Current				
General government	834,080	-	-	834,080
Public safety	814,194	843,156	-	1,657,350
Public works	801,651	-	31,151	832,802
Culture and recreation	929,036	-	394,182	1,323,218
Economic development	20,506	-	-	20,506
Miscellaneous	-	-	19,885	19,885
Debt Service				
Principal	15,241	-	330,000	345,241
Leases	8,133	-	-	8,133
Interest and other charges	1,900	-	58,427	60,327
Capital Outlay				
General government	314,366	-	-	314,366
Public safety	12,600	-	-	12,600
Public works	4,637	-	-	4,637
Culture and recreation	353,359	-	-	353,359
Miscellaneous	-	-	7,199	7,199
TOTAL EXPENDITURES	<u>4,109,703</u>	<u>843,156</u>	<u>840,844</u>	<u>5,793,703</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(191,746)</u>	<u>225,093</u>	<u>(397,011)</u>	<u>(363,664)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	22,185	-	370,864	393,049
Transfers out	(248,427)	(16,185)	(122,437)	(387,049)
Financed purchase issuance	49,376	-	-	49,376
TOTAL OTHER FINANCING SOURCES (USES)	<u>(176,866)</u>	<u>(16,185)</u>	<u>248,427</u>	<u>55,376</u>
NET CHANGE IN FUND BALANCES	(368,612)	208,908	(148,584)	(308,288)
FUND BALANCES - JANUARY 1	<u>1,164,674</u>	<u>881,900</u>	<u>260,473</u>	<u>2,307,047</u>
FUND BALANCES - DECEMBER 31	<u>\$ 796,062</u>	<u>\$ 1,090,808</u>	<u>\$ 111,889</u>	<u>\$ 1,998,759</u>

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, 2023**

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

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ (308,288)

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	692,161	
Less current year depreciation	(571,916)	
Less current year amortization	(8,838)	
	111,407	111,407

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		1,621
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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.

Financed purchases issued	(49,376)	
Principal payments	345,241	
Lease payments	8,133	
	303,998	303,998

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	1,124	
Change in severance payable	(15,992)	
Change in other postemployment benefits payable and related deferred outflows of resources	184,515	
Change in net pension asset, net pension liability and related deferred outflows and inflows of resources	(101,597)	
	68,050	68,050

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 176,788

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

CITY OF HOYT LAKES, MINNESOTA

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
December 31, 2023

	<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	\$ -	\$ 801,848	\$ -	\$ 801,848
Accounts receivable	47,694	80,217	35,377	163,288
Inventories	29,690	6,822	-	36,512
Prepaid items	12,288	11,567	1,137	24,992
TOTAL CURRENT ASSETS	<u>89,672</u>	<u>900,454</u>	<u>36,514</u>	<u>1,026,640</u>
NONCURRENT ASSETS				
Capital assets				
Land	20,000	20,000	-	40,000
Construction in progress	-	11,555,519	-	11,555,519
Infrastructure	331,837	6,105,509	-	6,437,346
Buildings	2,428,436	941,415	-	3,369,851
Machinery and equipment	281,271	68,798	-	350,069
Licensed vehicles	73,848	268,816	-	342,664
Less accumulated depreciation	<u>(2,036,497)</u>	<u>(1,824,964)</u>	<u>-</u>	<u>(3,861,461)</u>
TOTAL NONCURRENT ASSETS	<u>1,098,895</u>	<u>17,135,093</u>	<u>-</u>	<u>18,233,988</u>
TOTAL ASSETS	<u>1,188,567</u>	<u>18,035,547</u>	<u>36,514</u>	<u>19,260,628</u>
LIABILITIES				
CURRENT LIABILITIES				
Accounts payable	1,839	2,690	17,221	21,750
Salaries payable	4,864	4,864	419	10,147
Accrued interest payable	1,443	36,313	-	37,756
Due to other funds	21,067	-	80,232	101,299
Bonds and notes payable - current	<u>11,075</u>	<u>239,925</u>	<u>-</u>	<u>251,000</u>
TOTAL CURRENT LIABILITIES	<u>40,288</u>	<u>283,792</u>	<u>97,872</u>	<u>421,952</u>
NONCURRENT LIABILITIES				
Bonds and notes payable	137,300	4,891,689	-	5,028,989
Severance benefits	<u>1,920</u>	<u>1,920</u>	<u>-</u>	<u>3,840</u>
TOTAL NONCURRENT LIABILITIES	<u>139,220</u>	<u>4,893,609</u>	<u>-</u>	<u>5,032,829</u>
TOTAL LIABILITIES	<u>179,508</u>	<u>5,177,401</u>	<u>97,872</u>	<u>5,454,781</u>
NET POSITION				
Net investment in capital assets	950,520	12,003,479	-	12,953,999
Unrestricted	<u>58,539</u>	<u>854,667</u>	<u>(61,358)</u>	<u>851,848</u>
TOTAL NET POSITION	<u>\$ 1,009,059</u>	<u>\$ 12,858,146</u>	<u>\$ (61,358)</u>	<u>\$ 13,805,847</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, 2023**

	Business-type Activities - Enterprise Funds			
	Water Enterprise Fund	Sewer Enterprise Fund	Sanitation Enterprise Fund	Totals
REVENUES				
Charges for services	\$ 494,278	\$ 860,655	\$ 341,493	\$ 1,696,426
OPERATING EXPENSES				
Personal services	191,655	192,854	24,850	409,359
Contractual services	16,364	56,970	190,120	263,454
Utilities	73,722	81,363	2,733	157,818
Repairs and maintenance	87,241	51,000	-	138,241
Other supplies and expenses	9,796	13,763	16,158	39,717
Chemicals	181,126	18,960	-	200,086
Insurance claims and expenses	15,645	15,237	1,833	32,715
State and county fees	-	-	586	586
Depreciation	91,703	253,209	-	344,912
Miscellaneous	16,647	7,151	94,860	118,658
TOTAL OPERATING EXPENSES	683,899	690,507	331,140	1,705,546
OPERATING INCOME (LOSS)	(189,621)	170,148	10,353	(9,120)
NONOPERATING REVENUES (EXPENSES)				
Interest income	1,052	10,686	-	11,738
Miscellaneous revenue	7,680	-	-	7,680
Interest and other charges	(3,502)	(91,817)	-	(95,319)
TOTAL NONOPERATING REVENUES (EXPENSES)	5,230	(81,131)	-	(75,901)
INCOME (LOSS) BEFORE CAPITAL GRANTS, CAPITAL CONTRIBUTIONS, AND TRANSFERS	(184,391)	89,017	10,353	(85,021)
Capital grant	-	829,616	-	829,616
Transfers out	(3,000)	(3,000)	-	(6,000)
CHANGE IN NET POSITION	(187,391)	915,633	10,353	738,595
TOTAL NET POSITION - JANUARY 1	1,196,450	11,942,513	(71,711)	13,067,252
TOTAL NET POSITION - DECEMBER 31	\$ 1,009,059	\$ 12,858,146	\$ (61,358)	\$ 13,805,847

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, 2023**

	Business-type Activities - Enterprise Funds			Totals
	Water Enterprise Fund	Sewer Enterprise Fund	Sanitation Enterprise Fund	
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	\$ 490,447	\$ 865,067	\$ 326,386	\$ 1,681,900
Cash payments to suppliers	(377,543)	(243,082)	(307,408)	(928,033)
Cash payments to employees	(190,044)	(191,244)	(24,772)	(406,060)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>(77,140)</u>	<u>430,741</u>	<u>(5,794)</u>	<u>347,807</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Interfund financing of cash deficit	21,067	-	80,232	101,299
Prior year cash deficit implicitly financed	-	-	(74,438)	(74,438)
Miscellaneous revenue	7,680	-	-	7,680
Transfers out to other funds	(3,000)	(3,000)	-	(6,000)
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	<u>25,747</u>	<u>(3,000)</u>	<u>5,794</u>	<u>28,541</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Purchase of capital assets	-	(994,973)	-	(994,973)
Proceeds from bond issuance	-	148,058	-	148,058
Principal paid on long-term debt	(11,075)	(232,925)	-	(244,000)
Interest paid on long-term debt	(3,602)	(92,894)	-	(96,496)
Capital grant	-	829,616	-	829,616
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(14,677)</u>	<u>(343,118)</u>	<u>-</u>	<u>(357,795)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received	<u>1,052</u>	<u>10,686</u>	<u>-</u>	<u>11,738</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	<u>(65,018)</u>	<u>95,309</u>	<u>-</u>	<u>30,291</u>
CASH AND CASH EQUIVALENTS, JANUARY 1	<u>65,018</u>	<u>706,539</u>	<u>-</u>	<u>771,557</u>
CASH AND CASH EQUIVALENTS, DECEMBER 31	<u>\$ -</u>	<u>\$ 801,848</u>	<u>\$ -</u>	<u>\$ 801,848</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, 2023**

	Business-type Activities - Enterprise Funds			Totals
	Water Enterprise Fund	Sewer Enterprise Fund	Sanitation Enterprise Fund	
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Operating income (loss)	\$ (189,621)	\$ 170,148	\$ 10,353	\$ (9,120)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	91,703	253,209	-	344,912
Changes in assets and liabilities (Increase) decrease in:				
Accounts receivable	1,058	4,412	(15,107)	(9,637)
Inventories	23,801	(399)	-	23,402
Prepaid items	(2,600)	(896)	458	(3,038)
Increase (decrease) in:				
Accounts payable	1,797	2,657	(1,576)	2,878
Salaries payable	(309)	(310)	78	(541)
Customer deposits	(4,889)	-	-	(4,889)
Severance payable	1,920	1,920	-	3,840
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ (77,140)</u>	<u>\$ 430,741</u>	<u>\$ (5,794)</u>	<u>\$ 347,807</u>
NONCASH INVESTING, CAPITAL AND RELATED FINANCING ACTIVITIES:				
Total capital asset additions	\$ -	\$ 1,005,166	\$ -	\$ 1,005,166
Due from other governments - prior year	-	(73,293)	-	(73,293)
Contracts payable incurred for the purchase/construction of capital assets - prior year	-	63,100	-	63,100
Cash paid	<u>\$ -</u>	<u>\$ 994,973</u>	<u>\$ -</u>	<u>\$ 994,973</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, 2023

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, 2023

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.

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.

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 position 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

CITY OF HOYT LAKES, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2023

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

D. 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.

CITY OF HOYT LAKES, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2023

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. 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 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".

CITY OF HOYT LAKES, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2023

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

- 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.

CITY OF HOYT LAKES, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2023

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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

CITY OF HOYT LAKES, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2023

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 one source: property taxes, which is reported in the general fund. The second type of deferred inflows of resources is related to leases that will be recognized in future years, reported in the Stern Companies debt service fund and government-wide statement of net position. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The third 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:

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.

CITY OF HOYT LAKES, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2023

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Unassigned—all other spendable amounts. The City's fund balance policy requires the General Fund to maintain an unassigned and assigned fund balance amount in a range equal to 20-25% of the subsequent year's General Fund budgeted expenditures. The City was not in compliance with their fund balance policy at December 31, 2023.

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.

F. 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.

- 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.

G. 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.

CITY OF HOYT LAKES, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2023

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Fund Deficit

The following fund had a deficit balance at December 31, 2023:

Ranger ATV Capital Projects Fund \$ 109,054

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		1,552,625
Certificates of deposit		920,000
Escrow savings		<u>43,368</u>
		<u>\$ 2,516,143</u>

Reconciliation to financial statements:

Statement of Net Position	
Cash and cash equivalents	\$ 2,472,775
Restricted cash and cash equivalents	<u>43,368</u>
Total	<u>\$ 2,516,143</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

CITY OF HOYT LAKES, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2023

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

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 \$2,515,994; the bank balance was \$2,543,707. Of the bank balance, \$1,825,718 was insured and \$717,989 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.

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, 2023, the City had no investments.

CITY OF HOYT LAKES, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2023

NOTE 4 - CAPITAL AND RIGHT-TO-USE ASSETS

Capital and right-to-use asset activity for the year ended December 31, 2023, was as follows:

	Beginning Balance (as restated)	Additions	Deletions	Ending Balance
Governmental activities				
Capital assets, not being depreciated:				
Land	\$ 445,000	\$ -	\$ -	\$ 445,000
Construction in progress	484,339	601,382	-	1,085,721
Total capital assets, not being depreciated	<u>929,339</u>	<u>601,382</u>	<u>-</u>	<u>1,530,721</u>
Capital assets, being depreciated:				
Land improvements	364,135	-	-	364,135
Infrastructure	3,908,930	-	-	3,908,930
Buildings	8,027,271	12,330	(11,990)	8,027,611
Machinery and equipment	2,674,249	78,449	(10,000)	2,742,698
Licensed vehicles	1,634,082	-	-	1,634,082
Total capital assets, being depreciated	<u>16,608,667</u>	<u>90,779</u>	<u>(21,990)</u>	<u>16,677,456</u>
Less accumulated depreciation for:				
Land improvements	(248,609)	(11,180)	-	(259,789)
Infrastructure	(1,748,620)	(167,658)	-	(1,916,278)
Buildings	(3,926,018)	(207,896)	11,990	(4,121,924)
Machinery and equipment	(2,172,811)	(119,179)	10,000	(2,281,990)
Licensed vehicles	(1,240,414)	(66,003)	-	(1,306,417)
Total accumulated depreciation	<u>(9,336,472)</u>	<u>(571,916)</u>	<u>21,990</u>	<u>(9,886,398)</u>
Total capital assets, being depreciated, net	<u>7,272,195</u>	<u>(481,137)</u>	<u>-</u>	<u>6,791,058</u>
Right-to-use assets, being amortized:				
Leased machinery and equipment	44,192	-	-	44,192
Less accumulated amortization for:				
Leased machinery and equipment	-	(8,838)	-	(8,838)
Total right-to-use assets, being amortized, net	<u>44,192</u>	<u>(8,838)</u>	<u>-</u>	<u>35,354</u>
Governmental activities capital and right-to-use assets, net	<u>\$ 8,245,726</u>	<u>\$ 111,407</u>	<u>\$ -</u>	<u>\$ 8,357,133</u>
Business-type activities				
Capital assets, not being depreciated:				
Land	\$ 40,000	\$ -	\$ -	\$ 40,000
Construction in progress	10,569,554	985,965	-	11,555,519
Total capital assets, not being depreciated	<u>10,609,554</u>	<u>985,965</u>	<u>-</u>	<u>11,595,519</u>
Capital assets, being depreciated:				
Infrastructure	6,430,904	6,442	-	6,437,346
Buildings	3,369,851	-	-	3,369,851
Machinery and equipment	359,092	12,759	(21,782)	350,069
Licensed vehicles	342,664	-	-	342,664
Total capital assets, being depreciated	<u>10,502,511</u>	<u>19,201</u>	<u>(21,782)</u>	<u>10,499,930</u>
Less accumulated depreciation for:				
Infrastructure	(755,902)	(228,603)	-	(984,505)
Buildings	(2,321,898)	(79,031)	-	(2,400,929)
Machinery and equipment	(339,299)	(4,205)	21,782	(321,722)
Licensed vehicles	(121,232)	(33,073)	-	(154,305)
Total capital assets, being depreciated	<u>(3,538,331)</u>	<u>(344,912)</u>	<u>21,782</u>	<u>(3,861,461)</u>
Total capital assets, being depreciated, net	<u>6,964,180</u>	<u>(325,711)</u>	<u>-</u>	<u>6,638,469</u>
Business-type activities capital assets, net	<u>\$ 17,573,734</u>	<u>\$ 660,254</u>	<u>\$ -</u>	<u>\$ 18,233,988</u>

CITY OF HOYT LAKES, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2023

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	\$ 59,486
Public safety	166,419
Public works	180,988
Culture and recreation	<u>165,023</u>
Total depreciation and amortization expense - governmental activities	<u>\$ 571,916</u>

Business-type activities

Water	\$ 91,703
Sewer	<u>253,209</u>
Total depreciation and amortization expense - business-type activities	<u>\$ 344,912</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 2023, the City recognized \$79,398 and \$13,936 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
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>\$ 655,321</u>	<u>\$ 41,023</u>

CITY OF HOYT LAKES, MINNESOTA

**NOTES TO FINANCIAL STATEMENTS
December 31, 2023**

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 entered into financed purchase agreements to purchase mowers for the golf course. The financed purchases 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 and \$1,376,828 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 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 judgments 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, 2023, the City had drawn \$1,808,359 on the note. The note is to be repaid with net revenues of the Sewer Enterprise Fund.

In 2023, the City issued a financed purchase agreement for equipment for the golf course. The financed purchase will be paid by applicable resources. The equipment secures the financed purchase agreements.

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	\$ 985,000
General Obligation Capital Improvement Plan Bonds, Series 2016A	06/30/2016	1.00-3.00%	\$ 1,825,000	03/01/2039	1,335,000
State of Minnesota Loan 2018 IRRRB	08/09/2018	0%	\$ 850,000	08/08/2028	<u>587,500</u>
					<u>2,907,500</u>
Financed Purchase					
Toro Workman	05/23/2023	7.10%	\$ 49,376	05/23/2027	38,102
Toro Groundmaster	03/17/2020	4.90%	\$ 19,882	03/17/2024	<u>4,162</u>
Governmental activities long-term liabilities					<u>\$ 2,949,764</u>

CITY OF HOYT LAKES, MINNESOTA

**NOTES TO FINANCIAL STATEMENTS
December 31, 2023**

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%	\$ 1,808,360	08/20/2050	\$ 1,651,989
General Obligation Tax Abatement and Utility Revenue Bonds, Series 2020B	05/12/2020	2.35%	\$ 1,115,000	02/01/2041	1,025,000
General Obligation Revenue Note 2018 MPFA Clean Water	11/28/2018	1.00%	\$ 1,376,828	08/20/2038	1,058,000
General Obligation Disposal System and Water Revenue Bonds, Series 2017A	03/01/2017	1.55-3.30%	\$ 1,840,000	02/01/2038	<u>1,545,000</u>
Business-type activities long-term liabilities					<u>5,279,989</u>
Total Long-Term Liabilities					<u>\$ 8,229,753</u>

Long-term liability activity for the year ended December 31, 2023 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	\$ 1,030,000	\$ -	\$ 45,000	\$ 985,000	\$ 45,000
2016A GO Capital Improvement Plan	1,405,000	-	70,000	1,335,000	70,000
2013B GO	<u>75,000</u>	<u>-</u>	<u>75,000</u>	<u>-</u>	<u>-</u>
Total Bonds Payable	<u>2,510,000</u>	<u>-</u>	<u>190,000</u>	<u>2,320,000</u>	<u>115,000</u>
State of Minnesota Loan					
2018 IRRRB	<u>727,500</u>	<u>-</u>	<u>140,000</u>	<u>587,500</u>	<u>-</u>
Financed Purchases					
Toro Workman	-	49,376	11,274	38,102	8,569
Toro Groundmaster	<u>8,129</u>	<u>-</u>	<u>3,967</u>	<u>4,162</u>	<u>4,162</u>
Total Financed Purchases	<u>8,129</u>	<u>49,376</u>	<u>15,241</u>	<u>42,264</u>	<u>12,731</u>
Governmental activities - long-term liabilities	<u>\$ 3,245,629</u>	<u>\$ 49,376</u>	<u>\$ 345,241</u>	<u>\$ 2,949,764</u>	<u>\$ 127,731</u>

CITY OF HOYT LAKES, MINNESOTA

**NOTES TO FINANCIAL STATEMENTS
December 31, 2023**

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	\$ 1,557,931	\$ 148,058	\$ 54,000	\$ 1,651,989	\$ 55,000
2020B GO Tax Abatement and Utility Revenue	1,070,000	-	45,000	1,025,000	45,000
2018 GO Revenue Note					
MPFA Clean Water	1,123,000	-	65,000	1,058,000	66,000
2017A GO Disposal System and Water Revenue Bonds	<u>1,625,000</u>	<u>-</u>	<u>80,000</u>	<u>1,545,000</u>	<u>85,000</u>
Total Bonds and Notes Payable	<u>5,375,931</u>	<u>148,058</u>	<u>244,000</u>	<u>5,279,989</u>	<u>251,000</u>
Business-type activities - long-term liabilities	<u>\$ 5,375,931</u>	<u>\$ 148,058</u>	<u>\$ 244,000</u>	<u>\$ 5,279,989</u>	<u>\$ 251,000</u>

No interest was capitalized during 2023; interest incurred and charged to expense totaled \$151,590.

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	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Government wide</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2024	\$ 127,731	\$ 57,842	\$ 251,000	\$ 87,105	\$ 378,731	\$ 144,947
2025	124,177	54,817	256,000	91,510	380,177	146,327
2026	129,829	51,781	258,000	87,340	387,829	139,121
2027	135,527	48,526	264,000	82,938	399,527	131,464
2028	125,000	45,103	270,000	78,408	395,000	123,511
2029-2033	675,000	181,621	1,421,000	315,701	2,096,000	497,322
2034-2038	750,000	93,641	1,590,000	167,179	2,340,000	260,820
2039-2043	295,000	10,666	525,000	43,478	820,000	54,144
2044-2048	-	-	342,000	17,380	342,000	17,380
2049-2053	<u>-</u>	<u>-</u>	<u>102,989</u>	<u>2,120</u>	<u>102,989</u>	<u>2,120</u>
Total	<u>\$ 2,362,264</u>	<u>\$ 543,995</u>	<u>\$ 5,279,989</u>	<u>\$ 973,159</u>	<u>\$ 7,642,253</u>	<u>\$ 1,517,154</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, 2023

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 \$75,994 was paid during 2023. At December 31, 2023, the bonds were paid in full. In 2023, 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 68,646 was paid on the governmental portion during 2023. At December 31, 2023, principal and interest to be paid to maturity in 2041 totaled \$1,218,947.

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 \$124,755 was paid during 2023. At December 31, 2023, principal and interest to be paid to maturity in 2038 totaled \$1,949,517.

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 \$76,230 was paid during 2023. At December 31, 2023, principal and interest to be paid to maturity in 2038 totaled \$1,144,650.

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 \$69,617 was paid on the enterprise portion during 2023. At December 31, 2023, principal and interest to be paid to maturity in 2041 totaled \$1,268,580.

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 \$69,399 was paid during 2023. At December 31, 2023, principal and interest to be paid to maturity in 2050 totaled \$1,890,401. As of December 31, 2023, the City had drawn \$1,808,359 on the note.

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, 2023 is as follows:

CITY OF HOYT LAKES, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2023

NOTE 7 - LEASE LIABILITY (CONTINUED)

	Beginning Balance (restated)	Additions	Reductions	Ending Balance
Lease liability	\$ 44,192	\$ -	\$ 8,133	\$ 36,059

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

Year-Ending December 31,	Lease Liability	
	Principal	Interest
2024	8,583	1,051
2025	8,865	770
2026	9,155	479
2027	9,456	179
Total	\$ 36,059	\$ 2,479

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.

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

CITY OF HOYT LAKES, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2023

NOTE 8 - OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Contributions

The City and retirees make contributions toward health insurance premiums based on their employment contracts. During the year ended December 31, 2023, 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 \$572,244 was measured as of December 31, 2022, 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, 2022, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Discount rate	4.05%
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, 2022. The valuation date (census) is December 31, 2021.

CITY OF HOYT LAKES, MINNESOTA

**NOTES TO FINANCIAL STATEMENTS
December 31, 2023**

NOTE 8 - OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at 12/31/2022	\$ 756,904
Changes for the year:	
Service cost	16,414
Interest	13,827
Differences between expected and actual experience	(26,586)
Changes of assumptions	(144,584)
Benefit payments paid directly	(43,731)
Net changes	(184,660)
Balance at 12/31/2023	\$ 572,244

Discount Rate

The discount rate used to measure the total OPEB liability was 4.05%, an increase from the 1.84% discount rate measured as of December 31, 2022.

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 (3.05%) or 1-percentage-point higher (5.05%) than the current discount rate.

	1% Decrease (3.05%)	Current Discount Rate (4.05%)	1% Increase (5.05%)
Total OPEB liability	\$ 630,701	\$ 572,244	\$ 522,833

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	\$ 567,626	\$ 572,244	\$ 577,365

CITY OF HOYT LAKES, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2023

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, 2023, the City recognized OPEB expense of \$(78,540). At December 31, 2023, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions between measurement date and reporting date	\$ 44,327	\$ -

The amount reported as deferred outflows of resources will be recognized in OPEB expense for the year ending December 31, 2024.

NOTE 9 - INTERFUND BALANCES AND ACTIVITY

The composition of interfund balances as of December 31, 2023, 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	\$ 130,625
General Fund	Water Enterprise Fund	21,067
General Fund	Sanitation Enterprise Fund	<u>80,232</u>
	Total	<u>\$ 231,924</u>

The balances resulted from the elimination of the deficit cash balances.

Interfund transfers for the year ended December 31, 2023, consisted of the following:

	<u>Transfer In</u>	<u>Transfer Out</u>
Governmental Funds		
General Fund	\$ 22,185	\$ 248,427
Ambulance Special Revenue Fund	-	16,185
Nonmajor Governmental Funds	<u>370,864</u>	<u>122,437</u>
Total Governmental Funds	<u>393,049</u>	<u>387,049</u>
Enterprise Funds		
Water Enterprise Fund	-	3,000
Sewer Enterprise Fund	-	<u>3,000</u>
Total Enterprise Funds	-	<u>6,000</u>
Total	<u>\$ 393,049</u>	<u>\$ 393,049</u>

CITY OF HOYT LAKES, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2023

NOTE 9 - INTERFUND BALANCES AND ACTIVITY (CONTINUED)

The nonmajor debt service funds receive transfers to fund 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, 2023, fund balances are comprised of the following:

	General Fund	Ambulance Special Revenue Fund	Nonmajor Governmental Funds	Total
Nonspendable:				
Prepaid Items	\$ 75,320	\$ 13,373	\$ -	\$ 88,693
Restricted:				
Debt Service	-	-	184,827	184,827
Committed:				
Capital Projects	-	-	-	-
Fishermen's Point	288,293	-	-	288,293
OPEB	60,000	-	-	60,000
Ambulance	-	683,527	-	683,527
Ambulance - Vehicles	-	282,104	-	282,104
Ambulance - Equipment	-	111,804	-	111,804
Cemetery	-	-	36,116	36,116
Total Committed	<u>348,293</u>	<u>1,077,435</u>	<u>36,116</u>	<u>1,461,844</u>
Assigned:				
Buildings	230,000	-	-	230,000
Equipment	95,000	-	-	95,000
Fire Wildfire	28,769	-	-	28,769
Grant Match	50,000	-	-	50,000
Public Works Roadways	97,000	-	-	97,000
Total Assigned	<u>500,769</u>	<u>-</u>	<u>-</u>	<u>500,769</u>
Unassigned	<u>(128,320)</u>	<u>-</u>	<u>(109,054)</u>	<u>(237,374)</u>
Total fund balances	<u>\$ 796,062</u>	<u>\$ 1,090,808</u>	<u>\$ 111,889</u>	<u>\$ 1,998,759</u>

CITY OF HOYT LAKES, MINNESOTA

**NOTES TO FINANCIAL STATEMENTS
December 31, 2023**

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 \$9,173 during 2023 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, 2023. 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	\$ 11,555,519	\$ 123,586
Pavilion Project	\$ 329,071	\$ 62,685

CITY OF HOYT LAKES, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2023

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 2023, 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 \$48,094 for a total contribution of \$577,128 to the Board in 2023. Complete financial information can be obtained from the East Range Public Safety Board, 206 Kennedy Memorial Drive, Hoyt Lakes, MN 55750.

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, 2023, the City was liable for \$50,938 to current employees. During the year, the City did not expend any funds for this benefit.

CITY OF HOYT LAKES, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2023

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 one month but less than a full year as of the June 30 before the effective date of the increase will receive a reduced prorated increase. In 2023, legislation repealed the statute delaying increases for members retiring before full retirement age.

C. Contributions

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

CITY OF HOYT LAKES, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2023

NOTE 15 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in fiscal year 2023 and the City was required to contribute 7.50 percent for Coordinated Plan members. The City's contributions to the General Employees Retirement Fund for the year ended December 31, 2023, were \$113,029. 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, 2023, the City reported a liability of \$1,034,499 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 \$28,503.

The net pension liability was measured as of June 30, 2023, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportionate share of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2022 through June 30, 2023, relative to the total employer contributions received from all of PERA's participating employers. The City's proportionate share was 0.0185 percent at the end of the measurement period and 0.0171 percent for the beginning of the period.

City's proportionate share of the net pension liability	\$ 1,034,499
State of Minnesota's proportionate share of the net pension liability associated with the City	<u>28,503</u>
Total	<u>\$ 1,063,002</u>

There were no provision changes during the measurement period.

For the year ended December 31, 2023, the City recognized pension expense of \$27,247 for its proportionate share of the General Employees Plan's pension expense. In addition, the City recognized an additional \$128 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the General Employees Fund.

At December 31, 2023, the City reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

CITY OF HOYT LAKES, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2023

NOTE 15 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 33,355	\$ 5,933
Changes in actuarial assumptions	140,022	283,547
Net difference between projected and actual investment earnings	-	11,877
Changes in proportion	131,450	-
Contributions paid to PERA subsequent to the measurement date	56,553	-
Total	\$ 361,380	\$ 301,357

The \$56,553 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2024. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31:	Pension Expense Amount
2024	\$ 72,559
2025	\$ (88,492)
2026	\$ 41,844
2027	\$ (22,441)

Total Pension Expense

The total pension expense for all plans recognized by the City for the year ended December 31, 2023 was \$101,725.

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:

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%	

CITY OF HOYT LAKES, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2023

NOTE 15 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

F. Actuarial Methods and Assumptions

The total pension liability in the June 30, 2023 actuarial valuation was determined using an individual entry-age normal actuarial cost method. The long-term rate of return on pension plan investments used in the determination of the total liability is 7.0 percent. This assumption is based on a review of inflation and investments return assumptions from a number of national investment consulting firms. The review provided a range of return investment return rates deemed to be reasonable by the actuary. An investment return of 7.0 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 table is adjusted slightly to fit PERA's experience.

Actuarial assumptions for the General Employees Plan are reviewed every four years. The most recent four-year experience study for the General Employees Plan was completed in 2022. The assumption changes were adopted by the Board and became effective with the July 1, 2023 actuarial valuation.

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

General Employees Fund

Changes in Actuarial Assumptions:

- The investment return assumption and single discount rate were changed from 6.5 percent to 7.0 percent.

Changes in Plan Provisions:

- An additional one-time direct state aid contribution of \$170.1 million will be contributed to the Plan on October 1, 2023.
- The vesting period of those hired after June 30, 2010, was changed from five years of allowable service to three years of allowable service.
- The benefit increase delay for early retirements on or after January 1, 2024, was eliminated.
- A one-time, non-compounding benefit increase of 2.5 percent minus the actual 2024 adjustment will be payable in a lump sum for calendar year 2024 by March 31, 2024.

G. Discount Rate

The discount rate used to measure the total pension liability in 2023 was 7.0 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 Plan was projected to be

CITY OF HOYT LAKES, MINNESOTA

**NOTES TO FINANCIAL STATEMENTS
December 31, 2023**

NOTE 15 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

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	6.00%	\$ 1,830,112
Current Discount Rate	7.00%	\$ 1,034,499
1% Higher	8.00%	\$ 380,077

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.

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.

CITY OF HOYT LAKES, MINNESOTA

**NOTES TO FINANCIAL STATEMENTS
December 31, 2023**

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

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, 2023, 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, 2023 the City recognized pension expense of \$-.

At December 31, 2023 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

CITY OF HOYT LAKES, MINNESOTA

**NOTES TO FINANCIAL STATEMENTS
December 31, 2023**

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

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:

	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

CITY OF HOYT LAKES, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2023

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

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.

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.

CITY OF HOYT LAKES, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2023

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 2023, 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 \$85,000 for the year ended December 31, 2023.

NOTE 18 - RELATED PARTIES

The City's Emergency Medical Services Director's son is a City Councilor. The interested Councilor abstains from all votes and motions involving the Emergency Medical Services Director.

NOTE 19 - SUBSEQUENT EVENT

On September 9, 2024, the City of Hoyt Lakes issued \$2,491,000 General Obligation Tax Abatement Bonds, Series 2024A. The bond proceeds will be used for capital improvements at the Hoyt Lakes Wellness and Recreation Center (Arena).

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, 2023

	Budgeted Amounts		Actual Amounts, Budgetary Basis	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 1,771,217	\$ 1,771,217	\$ 1,800,341	\$ 29,124
Licenses and permits	6,000	6,000	8,721	2,721
Intergovernmental	1,126,943	1,126,943	1,385,834	258,891
Charges for services	382,700	382,700	462,441	79,741
Fines	-	-	10,486	10,486
Gifts and contributions	300	300	73,517	73,217
Interest	12,000	12,000	6,942	(5,058)
Miscellaneous	-	-	169,675	169,675
TOTAL REVENUES	<u>3,299,160</u>	<u>3,299,160</u>	<u>3,917,957</u>	<u>618,797</u>
EXPENDITURES				
Current				
General government	807,615	807,615	834,080	(26,465)
Public safety	716,698	716,698	814,194	(97,496)
Public works	990,648	990,648	801,651	188,997
Culture and recreation	815,753	815,753	929,036	(113,283)
Economic development	25,050	25,050	20,506	4,544
Debt Service				
Principal	-	-	15,241	(15,241)
Leases	-	-	8,133	(8,133)
Interest and other charges	-	-	1,900	(1,900)
Capital Outlay				
General government	155,000	155,000	314,366	(159,366)
Public safety	10,000	10,000	12,600	(2,600)
Public works	175,000	175,000	4,637	170,363
Culture and recreation	34,800	34,800	353,359	(318,559)
TOTAL EXPENDITURES	<u>3,730,564</u>	<u>3,730,564</u>	<u>4,109,703</u>	<u>(379,139)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(431,404)</u>	<u>(431,404)</u>	<u>(191,746)</u>	<u>239,658</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	7,500	7,500	22,185	14,685
Transfers out	-	-	(248,427)	(248,427)
Financed purchase issuance	-	-	49,376	49,376
TOTAL OTHER FINANCING SOURCES (USES)	<u>7,500</u>	<u>7,500</u>	<u>(176,866)</u>	<u>(184,366)</u>
NET CHANGE IN FUND BALANCES	(423,904)	(423,904)	(368,612)	55,292
FUND BALANCES - JANUARY 1	<u>1,164,674</u>	<u>1,164,674</u>	<u>1,164,674</u>	<u>-</u>
FUND BALANCES - DECEMBER 31	<u>\$ 740,770</u>	<u>\$ 740,770</u>	<u>\$ 796,062</u>	<u>\$ 55,292</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, 2023

	Budgeted Amounts		Actual Amounts, Budgetary Basis	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 48,800	\$ 48,800	\$ 79,742	\$ 30,942
Charges for services	750,000	750,000	948,164	198,164
Gifts and contributions	-	-	5,000	5,000
Interest	9,000	9,000	9,582	582
Miscellaneous	3,000	3,000	25,761	22,761
TOTAL REVENUES	<u>810,800</u>	<u>810,800</u>	<u>1,068,249</u>	<u>257,449</u>
EXPENDITURES				
Current				
Public safety	894,085	894,085	843,156	50,929
Capital Outlay				
Public safety	51,000	51,000	-	51,000
TOTAL EXPENDITURES	<u>945,085</u>	<u>945,085</u>	<u>843,156</u>	<u>101,929</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(134,285)	(134,285)	225,093	359,378
OTHER FINANCING SOURCES (USES)				
Transfers out	(45,000)	(45,000)	(16,185)	28,815
Sale of capital assets	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>(45,000)</u>	<u>(45,000)</u>	<u>(16,185)</u>	<u>28,815</u>
NET CHANGE IN FUND BALANCES	(179,285)	(179,285)	208,908	388,193
FUND BALANCES - JANUARY 1	<u>881,900</u>	<u>881,900</u>	<u>881,900</u>	<u>-</u>
FUND BALANCES - DECEMBER 31	<u>\$ 702,615</u>	<u>\$ 702,615</u>	<u>\$ 1,090,808</u>	<u>\$ 388,193</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, 2023

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Total OPEB Liability						
Service cost	\$ 16,414	\$ 22,454	\$ 18,289	\$ 12,840	\$ 12,697	\$ 10,757
Interest	13,827	16,553	21,816	22,690	21,561	24,363
Differences between expected and actual experience	(26,586)	(60,468)	(9,595)	106,821	-	-
Changes of assumptions	(144,584)	59	55,048	90,037	(21,176)	27,397
Benefit payments	<u>(43,731)</u>	<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	(184,660)	(75,200)	28,642	177,024	(37,611)	8,173
Total OPEB Liability - beginning	<u>756,904</u>	<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>\$ 572,244</u>	<u>\$ 756,904</u>	<u>\$ 832,104</u>	<u>\$ 803,462</u>	<u>\$ 626,438</u>	<u>\$ 664,049</u>
Payroll for measurement period	\$ 1,661,026	\$ 1,226,767	\$ 1,204,926	\$ 1,021,321	\$ 1,002,288	\$ 1,486,530
Net OPEB Liability as a % of employee payroll	34.5%	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, 2023**

**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
6/30/23	0.0185%	\$ 1,034,499	\$ 28,503	\$ 1,063,002	\$ 1,472,542	72.19%	83.10%
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)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (d)	Contributions as a Percentage of Covered Payroll (b/d)
12/31/23	\$ 113,029	\$ 113,029	\$ -	\$ 1,507,051	7.50%
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, 2023

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	(51,000)	(54,440)	(8,316)	-	(34,000)	(31,000)	-
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	(51,000)	(54,440)	(8,316)	-	(34,000)	(31,000)	-
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, 2023**

**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	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,992</u>
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, 2023**

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, 2023:

General Fund	<u>\$ 379,139</u>
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The overexpenditures were funded by existing fund balance.

NOTE 3 - POSTEMPLOYMENT BENEFIT PLAN ACTUARIAL ASSUMPTIONS AND METHODS

December 31, 2022 Measurement Date Changes

The benefits and assumptions valued in this report are based on the same plan provisions and assumptions described in the fiscal 2022 GASB 75 valuation report dated September 28, 2022, with the exception of the changes listed below:

- The discount rate was adjusted from 1.84 percent to 4.05 percent.

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

CITY OF HOYT LAKES, MINNESOTA

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
December 31, 2023**

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

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.

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 PERA 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

2023 Changes

Changes in Actuarial Assumptions:

- The investment return assumption and single discount rate were changed from 6.5 percent to 7.0 percent.

CITY OF HOYT LAKES, MINNESOTA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION December 31, 2023

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

Changes in Plan Provisions:

- An additional one-time direct state aid contribution of \$170.1 million will be contributed to the Plan on October 1, 2023.
- The vesting period of those hired after June 30, 2010, was changed from five years of allowable service to three years of allowable service.
- The benefit increase delay for early retirements on or after January 1, 2024, was eliminated.
- A one-time, non-compounding benefit increase of 2.5 percent minus the actual 2024 adjustment will be payable in a lump sum for calendar year 2024 by March 31, 2024.

2022 Changes

Changes in Actuarial Assumptions:

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

Changes in Plan Provisions:

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

2021 Changes

Changes in Actuarial Assumptions:

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

Changes in Plan Provisions:

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

2020 Changes

Changes in Actuarial Assumptions:

- The price inflation assumption was decreased from 2.50% 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

CITY OF HOYT LAKES, MINNESOTA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION December 31, 2023

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

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.

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.

CITY OF HOYT LAKES, MINNESOTA

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
December 31, 2023**

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

- 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.

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.

CITY OF HOYT LAKES, MINNESOTA

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
December 31, 2023**

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

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

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, 2023

	Cemetery Special Revenue Fund	Coronavirus State and Local Fiscal Recovery Funds (SLFRF) Special Revenue Fund	Stern Companies Debt Service Fund	Colby Ridge Debt Service Fund	Equipment Debt Service Fund
ASSETS					
Cash and cash equivalents	\$ 36,116	\$ 73,636	\$ 59,209	\$ -	\$ -
Accounts receivable	-	-	2,518	-	-
Grants receivable	-	-	-	-	-
Lease receivable	-	-	655,321	-	-
TOTAL ASSETS	<u>\$ 36,116</u>	<u>\$ 73,636</u>	<u>\$ 717,048</u>	<u>\$ -</u>	<u>\$ -</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Due to other governments	\$ -	\$ -	\$ 7,001	\$ -	\$ -
Due to other funds	-	-	-	-	-
Unearned revenue	-	73,636	-	-	-
TOTAL LIABILITIES	<u>-</u>	<u>73,636</u>	<u>7,001</u>	<u>-</u>	<u>-</u>
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue - lease receivable	-	-	647,657	-	-
FUND BALANCES					
Restricted	-	-	62,390	-	-
Committed	36,116	-	-	-	-
Assigned	-	-	-	-	-
Unassigned	-	-	-	-	-
TOTAL FUND BALANCES	<u>36,116</u>	<u>-</u>	<u>62,390</u>	<u>-</u>	<u>-</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 36,116</u>	<u>\$ 73,636</u>	<u>\$ 717,048</u>	<u>\$ -</u>	<u>\$ -</u>

Emergency Services Building Debt Service Fund	Suffolk Debt Service Fund	Ranger ATV Capital Projects Fund	Suffolk Street and Utility Reconstruction Capital Projects Fund	Total Nonmajor Governmental Funds
\$ -	\$ 122,437	\$ -	\$ -	\$ 291,398
-	-	-	-	2,518
-	-	61,571	-	61,571
-	-	-	-	655,321
<u>\$ -</u>	<u>\$ 122,437</u>	<u>\$ 61,571</u>	<u>\$ -</u>	<u>\$ 1,010,808</u>
\$ -	\$ -	\$ -	\$ -	\$ 7,001
-	-	130,625	-	130,625
-	-	40,000	-	113,636
-	-	170,625	-	251,262
-	-	-	-	647,657
-	122,437	-	-	184,827
-	-	-	-	36,116
-	-	-	-	-
-	-	(109,054)	-	(109,054)
-	122,437	(109,054)	-	111,889
<u>\$ -</u>	<u>\$ 122,437</u>	<u>\$ 61,571</u>	<u>\$ -</u>	<u>\$ 1,010,808</u>

CITY OF HOYT LAKES, MINNESOTA

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
Year Ended December 31, 2023

	Cemetery Special Revenue Fund	Coronavirus State and Local Fiscal Recovery Funds (SLFRF) Special Revenue Fund	Stern Companies Debt Service Fund	Colby Ridge Debt Service Fund	Equipment Debt Service Fund
REVENUES					
Intergovernmental	\$ -	\$ 31,151	\$ -	\$ -	\$ -
Charges for services	17,925	-	80,988	-	-
Gifts and contributions	-	-	-	-	-
Interest	-	-	12,890	-	-
TOTAL REVENUES	<u>17,925</u>	<u>31,151</u>	<u>93,878</u>	<u>-</u>	<u>-</u>
EXPENDITURES					
Current					
Public works	-	31,151	-	-	-
Culture and recreation	-	-	-	-	-
Miscellaneous	19,885	-	-	-	-
Debt Service					
Principal	-	-	140,000	31,500	43,500
Interest and other charges	-	-	-	417	1,011
Capital Outlay					
Miscellaneous	7,199	-	-	-	-
TOTAL EXPENDITURES	<u>27,084</u>	<u>31,151</u>	<u>140,000</u>	<u>31,917</u>	<u>44,511</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(9,159)</u>	<u>-</u>	<u>(46,122)</u>	<u>(31,917)</u>	<u>(44,511)</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	-	-	-	31,917	44,511
Transfers out	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>	<u>-</u>	<u>31,917</u>	<u>44,511</u>
NET CHANGE IN FUND BALANCES	(9,159)	-	(46,122)	-	-
FUND BALANCES - JANUARY 1	<u>45,275</u>	<u>-</u>	<u>108,512</u>	<u>-</u>	<u>-</u>
FUND BALANCES - DECEMBER 31	<u>\$ 36,116</u>	<u>\$ -</u>	<u>\$ 62,390</u>	<u>\$ -</u>	<u>\$ -</u>

Emergency Services Building Debt Service Fund	Suffolk Debt Service Fund	Ranger ATV Capital Projects Fund	Suffolk Street and Utility Reconstruction Capital Projects Fund	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ 288,879	\$ -	\$ 320,030
-	-	-	-	98,913
-	-	12,000	-	12,000
-	-	-	-	12,890
-	-	300,879	-	443,833
-	-	-	-	31,151
-	-	394,182	-	394,182
-	-	-	-	19,885
70,000	45,000	-	-	330,000
33,353	23,646	-	-	58,427
-	-	-	-	7,199
103,353	68,646	394,182	-	840,844
(103,353)	(68,646)	(93,303)	-	(397,011)
103,353	191,083	-	-	370,864
-	-	-	(122,437)	(122,437)
103,353	191,083	-	(122,437)	248,427
-	122,437	(93,303)	(122,437)	(148,584)
-	-	(15,751)	122,437	260,473
\$ -	\$ 122,437	\$ (109,054)	\$ -	\$ 111,889

CITY OF HOYT LAKES, MINNESOTA

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
Year Ended December 31, 2023

REVENUES

Taxes

General property	\$ 1,612,767
Taconite homestead credit	131,939
Franchise taxes	55,635
Total Taxes	<u>1,800,341</u>

Licenses and Permits

8,721

Intergovernmental

Federal grants	
Library Services and Technology Act grant	1,500
State grants and aids	
Local government aid	445,715
Taconite aids	703,058
Police aid	82,578
Public safety aid	87,652
Other state grants	65,331
Total Intergovernmental	<u>1,385,834</u>

Charges for Services

General government	
Lot sales	56,919
Other	27,833
Recreation	
Arena	17,717
Golf Course	95,969
Fisherman's Point	244,978
Library	470
Other	18,555
Total Charges for Services	<u>462,441</u>

Fines

10,486

Gifts and Contributions

Contributions and donations	17,025
Other grants	56,492
Total Gifts and Contributions	<u>73,517</u>

Interest

6,942

Miscellaneous

Insurance recoveries	125,150
Reimbursements and refunds	27,848
Other revenue	16,677
Total Miscellaneous	<u>169,675</u>

TOTAL REVENUES

3,917,957

EXPENDITURES

Current

General Government

Council	59,741
Administration	479,583
Attorney	20,785
Planning and zoning	18,526
Buildings	144,508
Other	110,937
Total General Government	<u>834,080</u>

CITY OF HOYT LAKES, MINNESOTA

GENERAL FUND
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 (CONTINUED)
 Year Ended December 31, 2023

EXPENDITURES (CONTINUED)

Public Safety	
Police	\$ 705,288
Fire	102,570
Animal control	6,336
Total Public Safety	<u>814,194</u>
Public Works	
Streets and garage	<u>801,651</u>
Culture and Recreation	
Recreation programs	123,768
Retirees' center	2,389
Arena	266,848
Community building	15,867
Golf Course	149,940
Fishermen's Point	113,335
Library	256,889
Total Culture and Recreation	<u>929,036</u>
Economic Development	
Community development	<u>20,506</u>
Debt Service	
Principal	<u>15,241</u>
Leases	<u>8,133</u>
Interest and other charges	<u>1,900</u>
Capital Outlay	
General Government	
Pavilion	<u>314,366</u>
Public Safety	
Fire	<u>12,600</u>
Public Works	
Public works - other	<u>4,637</u>
Culture and Recreation	
Retirees' center	12,330
Arena	2,664
Golf Course	54,013
Fishermen's Point	284,352
Total Culture and Recreation	<u>353,359</u>
TOTAL EXPENDITURES	<u>4,109,703</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	<u>(191,746)</u>
OTHER FINANCING SOURCES (USES)	
Transfers in	22,185
Transfers out	(248,427)
Financed purchase issuance	49,376
TOTAL OTHER FINANCING SOURCES (USES)	<u>(176,866)</u>
NET CHANGE IN FUND BALANCE	(368,612)
FUND BALANCE - JANUARY 1	<u>1,164,674</u>
FUND BALANCE - DECEMBER 31	<u>\$ 796,062</u>



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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, 2023, 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 September 27, 2024. 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 deficiencies described in the accompanying schedule of findings and responses as items 2023-002 and 2023-003 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and responses as item 2023-001 and 2023-004 to be significant deficiencies.

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 depositories of public funds and public investments section of the *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minn. Stat. §6.65, insofar as they relate to accounting matters as described in the schedules of findings and responses as item 2023-005. 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 contracting-bid laws, 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 September 27, 2024 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
September 27, 2024

CITY OF HOYT LAKES, MINNESOTA

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended December 31, 2023**

Prior Audit Financial Statement Findings

FINDING 2022-001. 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 2022-002. 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.

FINDING 2022-003. CONTRACTING - BID LAWS

Summary of Condition

As required by Minn. Statute § 471.345 for contracts estimated to be over \$175,000 the public entity should solicit sealed bids. The City purchased equipment over the \$175,000 threshold without soliciting sealed bids.

Summary of Corrective Action Previously Reported

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

Current Status

Resolved.

CITY OF HOYT LAKES, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended December 31, 2023

2023-001. 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.

2023-002. 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, 2023

2023-002. 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.

2023-003. BANK RECONCILIATIONS

Criteria

Bank accounts should be reconciled to the general ledger monthly and reported to the Council for review at monthly meetings.

Condition

The City's checking account was reconciled through May 2023, but not the entire year of audit.

Effect

Because bank statements were not reconciled to the Civic Systems accounting software on a timely basis throughout the year, the City of Hoyt Lakes did not provide adequate control of the City's cash and fund accounting records. Audit adjustments were made to correct checking account cash in the general ledger at December 31, 2023 in the amount of \$(209,589).

Cause

This occurred because of a failure to reconcile bank account activity to the general ledger in the Civic Systems accounting software in a timely manner. City staff was aware that cash was not reconciled, but were advised by accounting software consultants not to correct the discrepancy until outstanding conversion issues were resolved.

Recommendations

We recommend bank accounts be reconciled to the general ledger monthly (within two weeks after receipt of the bank statement is reasonable) and reviewed and approved by a City Council member noting approval by signature.

Views of Responsible Officials and Planned Corrective Action

Management agrees with the audit finding. Bank reconciliations will be completed on a monthly basis, reviewed by a City Council member, and signed by that City Council member to ensure proper control over cash and fund accounting records.

2023-004. ACCOUNTING SOFTWARE CONVERSION

Criteria

The City converted to new accounting software (Civic Systems) effective June 1, 2023.

Condition

The mid-year conversion resulted in many significant accounting issues affecting the year of audit. Examples include overstated or incorrect accounts receivable balances and revenues,

CITY OF HOYT LAKES, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended December 31, 2023

2023-004. ACCOUNTING SOFTWARE CONVERSION (CONTINUED)

items posted through the conversion missing transaction detail within the software, and overstatement of cash.

Effect

Significant additional audit work, increase in audit adjustments (in the number of entries and amounts adjusted), and research and review of the conversion by Civic Systems' staff was required to present accurate financial statements and complete the City's audit.

Cause

It is not unusual to have issues when converting to new accounting software. A mid-year conversion can cause inconsistencies and issues when there is significant change from the prior software, both in the transition of a software conversion itself so as to not duplicate or leave out transactions at the cutoff date and inherently in the City having to adopt and apply new procedures appropriate for the new software. Accounts receivable and accounts payable were set up in Civic Systems as accrual-basis on June 1, 2023, while in the City's two most recent accounting software systems they were cash-basis. As such, if cash, accounts receivable, and accounts payable had been reconciled timely, it is likely many of the incorrect balances in 2023 would have been identified during 2023 prior to audit fieldwork.

Recommendations

We recommend future significant changes affecting City financials, such as software conversions or implementations, be initiated at the beginning of a new year. In the situation of a software conversion or implementation of a new accounting software module, new and old software should be run "dual" or "parallel" for a period of time to compare balances and ensure the new accounting software or module is posting transactions and reconciling activity appropriately and presenting accurate balances.

We recommend the City consider implementing procedures for recording revenues and expenditures similar to those utilized prior to the software conversion, or review and adjust current procedures to avoid similar issues going forward, including the addition of monthly accounts receivable and accounts payable reconciliations.

If City Council and staff would find additional software training useful, we recommend that as well.

Views of Responsible Officials and Planned Corrective Action

Management agrees with the audit finding. The audit recommendations will be applied should the City make significant changes to accounting software or modules in the future. Accounts receivable and accounts payable will be recorded cash-basis through the year as was done prior to June 1, 2023, or monthly accounts receivable and accounts payable reconciliations will be performed agreeing detail in the general ledger, modules, and supporting documentation.

CITY OF HOYT LAKES, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended December 31, 2023

MINNESOTA LEGAL COMPLIANCE

2023-005. BROKER CERTIFICATION FORM

Criteria and Condition

Minnesota Statutes §118A.04 requires cities to annually complete a broker certification form provided by the state auditor. This form includes a written statement of investment restrictions which contains a provision that all future investments are to be made in accordance with *Minnesota Statutes*. The form must be signed by both the City and the broker annually, prior to investing. The City did not complete this form prior to investing with one of their brokers.

Effect

The City is not in compliance with *Minnesota Statutes* regarding the broker certification form.

Cause

This occurred because the City did not complete the form prior to investing.

Recommendations

The City Council must ensure the broker certification form is completed annually.

Views of Responsible Officials and Planned Corrective Action

Management agrees with the audit finding. The broker certification form will be completed annually.



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REPRESENTATION OF THE CITY OF HOYT LAKES, MINNESOTA

CORRECTIVE ACTION PLAN Year Ended December 31, 2023

Finding Number: 2023-001

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: 2023-002

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: 2023-003

Finding Title: BANK RECONCILIATIONS

Name of Contact Person Responsible for Corrective Action

Rebecca Lammi, City Administrator

Corrective Action Planned

Management agrees with the audit finding. Bank reconciliations will be completed on a monthly basis, reviewed and approved by a Council member, and signed to ensure proper control over cash and fund accounting records.

Anticipated Completion Date

December 31, 2024.

Finding Number: 2023-004

Finding Title: ACCOUNTING SOFTWARE CONVERSION

Name of Contact Person Responsible for Corrective Action

Rebecca Lammi, City Administrator

Corrective Action Planned

Management agrees with the audit finding. The audit recommendations will be applied should the City make significant changes to accounting software or modules in the future. Accounts receivable and accounts payable will be recorded cash-basis through the year as was done prior to June 1, 2023, or monthly accounts receivable and accounts payable reconciliations will be performed agreeing detail in the general ledger, modules, and supporting documentation.

Anticipated Completion Date

December 31, 2024.

Finding Number: 2023-005

Finding Title: BROKER CERTIFICATION FORM

Name of Contact Person Responsible for Corrective Action

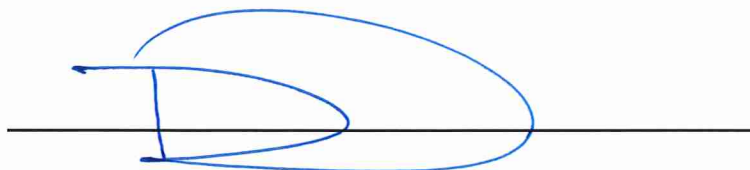
Rebecca Lammi, City Administrator

Corrective Action Planned

Management will ensure the broker certification form is completed annually.

Anticipated Completion Date

December 31, 2024.



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, 2023, in accordance with auditing standards generally accepted in the United States of America, we considered City of Hoyt Lakes, Minnesota's system of 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 September 27, 2024, 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 September 27, 2024, 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 reported an operating loss for the year ended December 31, 2023. We suggest the City Council review the loss and implement a plan to make the fund 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 2023 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. The City began assessing delinquent utility accounts to St. Louis County for collection with property tax payments twice per year beginning in 2023, once in April and again in October. St. Louis County only accepts and processes certifications once per year, in November for collection in the subsequent year. City procedure is, upon Council approval in April and October, to remove assessed accounts receivable balances from the accounting software's utility module and track them subsidiarily in a spreadsheet. To simplify, we recommend these accounts stay in accounts receivable in the utility module until certification to St. Louis County in November, as they are the City's responsibility for collection until that point in time and it will also relieve additional tracking and reconciling for accounts tracked on a subsidiary spreadsheet.
5. The City's fund balance policy requires that the General Fund maintain an unassigned and assigned fund balance amount in a range equal to 20-25% of the subsequent year's budgeted General Fund expenditures. At December 31, 2023, the City was not in compliance with their fund balance policy. We recommend the City implement a plan to increase the unassigned and assigned balance in the General Fund to comply with this policy.

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, Giroux & Helne, LLC

Virginia, Minnesota
September 27, 2024