CITY OF OSAKIS

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

Year Ended December 31, 2023

CITY OF OSAKIS, MINNESOTA
ELECTED OFFICIALS AND ADMINISTRATION

ELECTED OFFICIALS

		Term Expires
Dan Wessel	Mayor	2024
Stephanie Finnegan	Council Member	2026
Laura Backes	Council Member	2026
Alan Larson	Council Member	2024
Tim Thornbloom	Council Member	2024

ADMINISTRATION

Angela Jacobson	Clerk/Treasurer	Appointed
Lynnette Swenstad	Deputy Clerk	Appointed

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Members of the City Council
City of Osakis, Minnesota

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the City of Osakis, Minnesota, which comprise the statements of balances arising from cash transactions as of December 31, 2023, and the related statements of cash receipts, disbursements and changes in cash fund balances for the year then ended, and the related notes to the financial statements.

Unmodified Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash and unencumbered cash balances of the City of Osakis, Minnesota, as of December 31, 2023, and the revenues it received and expenditures it paid, and where applicable, cash flows thereof, for the year then ended in accordance with the financial reporting provisions "Minimum Reporting Requirements for City Financial Statements for Cities Under 2,500 in Population" as promulgated by *Minnesota Statutes*, Section 471.698. described in Note 1.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles section of our report, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the City of Osakis, Minnesota, as of December 31, 2023, or changes in net position, or cash flows thereof for the year then ended.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City of Osakis, 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 audit opinions.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles
As described in Note 1, the financial statements are prepared by the City of Osakis, Minnesota, on the basis of the financial provisions of the of “Minimum Reporting Requirements for City Financial Statements for Cities Under 2,500 in Population” as allowed by *Minnesota Statutes,* Section 471.698, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statements and variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material and pervasive.

Responsibilities of Management for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with the regulatory basis of accounting, as described in Note 1. Management is also responsible 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 Osakis, 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 opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of City of Osakis, 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 City of Osakis, 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Osakis, Minnesota's basic financial statements. The accompanying budget vs. actual comparison – general fund, fire service & equipment fund, combining and individual nonmajor fund statements, and the schedules of indebtedness, accounts receivable, and accounts payable are presented for the 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 auditing standards generally accepted in the United States of America. In our opinion, the budget vs. actual comparison – general fund, fire service & equipment fund, combining and individual nonmajor fund statements, and the schedules of indebtedness, accounts receivable, and accounts payable is fairly stated in all material respects in relation to the basic financial statements as a whole on the basis of accounting described in Note 1.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 29, 2024 on our consideration of the City of Osakis, 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 Osakis, 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 the City of Osakis, Minnesota's internal control over financial reporting and compliance.

Carlson SV LLP

Fergus Falls, Minnesota
April 29, 2024

BASIC FINANCIAL STATEMENTS

Fund Financial Statements

CITY OF OSAKIS, MINNESOTA
STATEMENT OF BALANCES ARISING FROM CASH TRANSACTIONS
GOVERNMENTAL FUNDS
December 31, 2023

	General	Fire Service & Equipment	TIF 1-5 Osakis Residential Revolving Housing	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	$ 2,503,159	$ 99,457	$ 621,016	$ 979,826	$ 4,203,458
TOTAL ASSETS	**$ 2,503,159**	**$ 99,457**	**$ 621,016**	**$ 979,826**	**$ 4,203,458**
CASH FUND POSITION					
Restricted for					
Tax increments	$ -	$ -	$ 621,016	$ 10,706	$ 631,722
DWI assessment expenses	-	-	-	1,214	1,214
COVID funding expenditures	-	-	-	13,873	13,873
Community park and rec expenditures	-	-	-	51,007	51,007
Lodging tax payments	-	-	-	3,913	3,913
Debt service	-	-	-	533,863	533,863
Unrestricted					
Committed for					
Fire service and equipment expenditures	-	99,457	-	-	99,457
First responders operations	-	-	-	70,045	70,045
Economic development expenditures	-	-	-	7,988	7,988
Cemetery operations	-	-	-	42,702	42,702
National Night Out expenditures	-	-	-	1,036	1,036
Assigned for					
Future capital purchases	841,436	-	-	-	841,436
Repairs and maintenance expenditures	456,165	-	-	-	456,165
Fireworks	2,141	-	-	-	2,141
Industrial park expenditures	-	-	-	247,451	247,451
Unassigned	1,203,417	-	-	(3,972)	1,199,445
TOTAL CASH FUND POSITION	**$ 2,503,159**	**$ 99,457**	**$ 621,016**	**$ 979,826**	**$ 4,203,458**

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

CITY OF OSAKIS, MINNESOTA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended December 31, 2023

	General	Fire Service & Equipment	TIF 1-5 Osakis Residential Revolving Housing	Nonmajor Governmental Funds	Total Governmental Funds
RECEIPTS					
Property taxes	$ 725,619	$ -	$ -	$ 70,733	$ 796,352
Franchise taxes	13,068	-	-	-	13,068
Lodging taxes	1,290	-	-	-	1,290
Special assessments	-	-	-	111,838	111,838
Tax increments	-	-	112,336	46,032	158,368
Licenses and permits	51,602	-	-	-	51,602
Intergovernmental	635,815	-	-	-	635,815
Charges for services	42,071	116,704	-	263	159,038
Fines and forfeits	9,398	-	-	-	9,398
Investment earnings	34,199	1,589	10,410	10,161	56,359
Donations	114,725	700	-	42,609	158,034
Refunds	2,745	-	-	-	2,745
Miscellaneous	1,767	-	15,451	55,071	72,289
Total Receipts	1,632,299	118,993	138,197	336,707	2,226,196
DISBURSEMENTS					
Current					
General government	333,170	-	-	-	333,170
Public safety	616,627	118,059	-	3,718	738,404
Streets	202,288	-	-	1,152	203,440
Culture and recreation	71,913	-	-	798	72,711
Economic development	27,083	-	50,820	33,572	111,475
Miscellaneous	153,947	-	-	1,517	155,464
Debt service					
Principal	-	93,324	-	270,000	363,324
Interest and other charges	-	6,057	-	24,566	30,623
Capital outlay	160,372	90,331	-	27,728	278,431
Total Disbursements	1,565,400	307,771	50,820	363,051	2,287,042
RECEIPTS OVER (UNDER) DISBURSEMENTS	66,899	(188,778)	87,377	(26,344)	(60,846)
OTHER FINANCING SOURCES (USES)					
Sale of capital assets	24,047	21,500	-	-	45,547
Insurance recovery	11,047	96,697	-	-	107,744
Transfers in	14,150	-	-	25,375	39,525
Transfers out	(375)	-	(8,000)	(26,150)	(34,525)
Net Other Financing Sources (Uses)	48,869	118,197	(8,000)	(775)	158,291
NET CHANGE IN CASH FUND BALANCES	115,768	(70,581)	79,377	(27,119)	97,445
CASH FUND BALANCES - BEGINNING	2,387,391	170,038	541,639	1,006,945	4,106,013
CASH FUND BALANCES - ENDING	**$ 2,503,159**	**$ 99,457**	**$ 621,016**	**$ 979,826**	**$ 4,203,458**

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

CITY OF OSAKIS, MINNESOTA
STATEMENT OF BALANCES ARISING FROM CASH TRANSACTIONS
PROPRIETARY FUNDS
December 31, 2023

	Business-Type Activities - Enterprise Funds				
	Water	**Sewer**	**Garbage/ Recycling**	**Liquor**	**Total**
ASSETS					
Current Assets					
Cash and cash equivalents	$ 233,779	$ 426,557	$ 37,982	$ 276,317	$ 974,635
TOTAL ASSETS	**$ 233,779**	**$ 426,557**	**$ 37,982**	**$ 276,317**	**$ 974,635**
NET CASH POSITION					
Unrestricted	$ 233,779	$ 426,557	$ 37,982	$ 276,317	$ 974,635
TOTAL NET CASH POSITION	**$ 233,779**	**$ 426,557**	**$ 37,982**	**$ 276,317**	**$ 974,635**

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

CITY OF OSAKIS, MINNESOTA

STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN NET CASH POSITION

PROPRIETARY FUNDS

Year Ended December 31, 2023

	Business-Type Activities - Enterprise Funds				
	Water	Sewer	Garbage/ Recycling	Liquor	Total
OPERATING RECEIPTS					
Charges for services	$ 537,577	$ 348,433	$ 133,769	$ 1,059,457	$ 2,079,236
Less: Cost of sales	-	-	-	(689,285)	(689,285)
Miscellaneous	580	-	-	-	580
Total Operating Receipts	538,157	348,433	133,769	370,172	1,390,531
OPERATING DISBURSEMENTS					
Personnel services	88,888	99,602	-	186,167	374,657
Payroll taxes	6,501	7,570	-	13,533	27,604
Employee benefits	25,922	4,485	-	39,757	70,164
Pension contributions	6,667	7,470	-	13,414	27,551
Professional services	8,230	32,179	129,982	2,000	172,391
Utilities	18,025	14,312	-	13,184	45,521
Supplies	3,101	1,267	-	11,019	15,387
Repairs and maintenance	23,602	49,138	-	30,505	103,245
Chemicals	87,287	34,128	-	-	121,415
Insurance	250	-	-	3,425	3,675
Testing	1,189	4,617	-	-	5,806
Office expenses	4,975	951	-	3,626	9,552
Other disbursements	19,764	7,469	-	41,107	68,340
Total Operating Disbursements	294,401	263,188	129,982	357,737	1,045,308
OPERATING CASH INCOME	243,756	85,245	3,787	12,435	345,223
NONOPERATING RECEIPTS (DISBURSEMENTS)					
Interest and investment receipts	3,092	4,091	86	-	7,269
Special assessments	29,214	37,877	-	-	67,091
Rent income	-	-	-	58,827	58,827
Miscellaneous receipts	-	-	-	4,809	4,809
Capital outlay	(76,227)	(57,206)	-	-	(133,433)
Debt principal	(92,000)	(109,000)	-	-	(201,000)
Interest disbursements	(48,947)	(40,595)	-	-	(89,542)
Net Nonoperating Receipts (Disbursements)	(184,868)	(164,833)	86	63,636	(285,979)
NET CASH INCOME (LOSS) BEFORE TRANSFERS	58,888	(79,588)	3,873	76,071	59,244
TRANSFERS					
Transfers out	-	-	-	(5,000)	(5,000)
CHANGE IN NET CASH POSITION	58,888	(79,588)	3,873	71,071	54,244
TOTAL NET CASH POSITION - BEGINNING	174,891	506,145	34,109	205,246	920,391
TOTAL NET CASH POSITION - ENDING	**$ 233,779**	**$ 426,557**	**$ 37,982**	**$ 276,317**	**$ 974,635**

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

CITY OF OSAKIS, MINNESOTA
STATEMENT OF CASH FLOWS - CASH BASIS
PROPRIETARY FUNDS
Year Ended December 31, 2023

	Business Type Activities - Enterprise Funds				
	Water	Sewer	Garbage/ Recycling	Liquor	Total
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers and users	$ 538,157	$ 348,433	$ 133,769	$ 370,172	$ 1,390,531
Payments to suppliers	(3,101)	(1,267)	-	(11,019)	(15,387)
Payments to employees	(88,888)	(99,602)	-	(186,167)	(374,657)
Payments for services provided	(164,505)	(138,859)	(129,982)	(88,871)	(522,217)
Payments to other governments	(13,168)	(15,040)	-	(26,947)	(55,155)
Other receipts	-	-	-	63,636	63,636
Other payments	(24,739)	(8,420)	-	(44,733)	(77,892)
Net Cash Provided by Operating Activities	243,756	85,245	3,787	76,071	408,859
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Special assessments	29,214	37,877	-	-	67,091
Transfers to other funds	-	-	-	(5,000)	(5,000)
Net Cash Provided (Used) by Noncapital Financing Activities	29,214	37,877	-	(5,000)	62,091
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Purchases of capital assets	(76,227)	(57,206)	-	-	(133,433)
Principal paid on capital debt	(92,000)	(109,000)	-	-	(201,000)
Interest paid on capital debt	(48,947)	(40,595)	-	-	(89,542)
Net Cash Used by Capital and Related Financing Activities	(217,174)	(206,801)	-	-	(423,975)
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest and dividends	3,092	4,091	86	-	7,269
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	58,888	(79,588)	3,873	71,071	54,244
CASH AND CASH EQUIVALENTS - BEGINNING	174,891	506,145	34,109	205,246	920,391
CASH AND CASH EQUIVALENTS - ENDING	**$ 233,779**	**$ 426,557**	**$ 37,982**	**$ 276,317**	**$ 974,635**

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

CITY OF OSAKIS, MINNESOTA
STATEMENT OF FIDUCIARY NET POSITION
December 31, 2023

		Revolving Loan Trust Fund
ASSETS		
Cash and cash equivalents	$	10,758
TOTAL ASSETS	**$**	**10,758**
NET POSITION		
Held in trust	$	10,758
TOTAL NET CASH ASSETS	**$**	**10,758**

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
Year Ended December 31, 2023

		Revolving Loan Trust Fund
ADDITIONS		
Investment income	$	293
Disbusements		
Economic developments		15,000
CHANGE IN NET POSITION		(14,707)
NET POSITION - BEGINNING OF YEAR		25,465
NET POSITION - END OF YEAR	**$**	**10,758**

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

NOTE 1 – NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The City of Osakis, Minnesota was incorporated under the laws of the State of Minnesota and operates under a mayor-council form of government. The mayor and four council members are elected by the voters of the City.

The financial statements of the reporting entity include those of the City (the primary government) and the component units for which the primary government is financially accountable. The criteria used to determine if the primary government is financially accountable for a component unit includes whether or not the primary government appoints the voting majority of the potential component unit's governing body, is able to impose its will on the potential component unit, is in a relationship of financial benefit or burden with the potential component unit or the potential component unit is fiscally dependent on the City.

Blended component units are separate legal entities that meet the component unit criteria described above and whose governing body is the same or substantially the same as the City Council or the component unit provides services entirely to the City. These component unit's funds are blended into those of the City by appropriate activity type to compose the primary government presentation. The City has one blended component unit:

> The Osakis Economic Development Authority (EDA) was organized in 1997 for the purpose of promoting economic development in the Osakis area. The governing body is composed of a seven member board. The City Council approves all appointments to the EDA Board, and two City Council members are members of the EDA Board. The EDA is included as a blended component unit of the City because the EDA is financially accountable to the City and the EDA provides services almost entirely for the City. The EDA is included as a special revenue fund of the City. Separate financial statements are not prepared for the EDA.

Discretely presented component units are separate legal entities that meet the component unit criteria described above but do not meet the criteria for blending. Currently, the City has no discretely presented component units.

Joint Venture and Jointly Governed Organizations. The City has a local lodging tax. The proceeds of the lodging tax provides for a local tourism and visitors bureau whose purpose is to promote tourism in the City. The joint powers agreement established a lodging tax of up to 3% and is collected by the City. The City retains 5% of the tax for reimbursement of administrative expenses and the balance of the tax remitted to the tourism and visitors bureau. Collections of lodging taxes and remittance to the tourism and visitors bureau are accounted for in the General Fund. Separate financial statements are not prepared.

NOTE 1 – NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The following represents the significant accounting policies used by the City of Osakis, Minnesota:

Measurement Focus, Basis of Accounting, and Financial Statement Presentation
The City follows the practice of reporting under the "Minimum Reporting Requirements for City Financial Statements for Cities Under 2,500 in Population," as promulgated by Minnesota State Statutes, Section 471.698. Under these regulatory requirements, the regulatory (cash) basis method of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles (GAAP), is used for all funds.

Under the cash basis of accounting, revenues are recognized when received rather than when earned and expenses are recorded when paid rather than when the obligation is incurred. All assets, other than cash in bank, and all liabilities and fund balances are accounted for through supplementary memorandum records which are not under positive general ledger control.

The fund financial statements provide information about the City's governmental and proprietary funds. The emphasis of fund financial statements is on major funds, each displayed in a separate column. All remaining funds are aggregated and reported as other nonmajor funds.

Funds are organized as major funds or nonmajor funds within the governmental and proprietary statements. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

1. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10% of the corresponding total for all funds of that category or type, and
2. The same element of the individual governmental fund or enterprise fund that met the 10% test is at least 5% of the corresponding total for all governmental and enterprise funds combined.
3. In addition, any other governmental or enterprise fund that the City believes is particularly important to financial statement users may be reported as a major fund.

The City reports the following types of funds:
<u>Governmental Funds</u>
General – used to account for the City's primary operating activities and by definition is a major fund. It is used to account for and report all financial resources except those required to be accounted for in another fund. The general fund is a major fund.

NOTE 1 – NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)
Governmental Funds (Continued)

Special Revenue Funds – used to account for and report the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes (other than debt service or capital projects). The City's major special revenues funds and their purposes are as follows:

Fire Service & Equipment - accounts for the operations and future equipment purchases of the Osakis fire department.

TIF 1-5 Osakis Residential Revolving Housing – accounts for the resources accumulated and used to promote improvements of single family owner occupied homes in Douglas County.

Debt Service Funds – used to account for and report financial resources that are restricted, committed, or assigned to expenditure for the payment of long-term debt principal, interest, and related costs, other than enterprise debt. The City has no major debt service funds.

Capital Project Funds – used to account for the financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds). The City has no major capital project funds.

Proprietary Funds

Enterprise Funds – used to account for operations that are financed and operated in a manner similar to private business enterprise, where the intent is that the cost of providing goods or services be financed or recovered primarily through user charges. In addition, the general property taxes and special assessments levied to retire the bonded indebtedness relating to the construction of the water and sewer systems are accounted for in these funds. The City's major enterprise funds and their purposes are as follows:

Water – accounts for the activities of the City's water service operations.

Sewer – accounts for the activities of the City's sewer service operations.

Garbage/Recycling – accounts for the activities of the City's garbage and recycling operations.

Liquor – accounts for the operations of the City's liquor store.

NOTE 1 – NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Fiduciary Funds

Trust Fund – accounts for assets held by the City in a trustee capacity for individuals, private organizations, other governments, and/or other funds. Expendable trust funds are accounted for in essentially the same manner as governmental funds. The City's intent is to use the principal and interest collected for future development projects. The City currently has a revolving loan trust fund.

Use of Estimates

The preparation of financial statements in conformity with the 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 expenditures/expenses during the reporting period. Actual results could differ from those estimates.

Cash and Temporary Investments (Including Cash Equivalents)

Available cash balances from all funds are pooled and invested in accordance with *Minnesota Statutes*. Each fund's share of the pool is shown on the financial statements as "cash and cash equivalents." The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term maturities with original maturities of three months or less from the date of acquisition. Investments are valued at fair value.

Long-Term Debt

Long-term debt is not reported as a liability in the regulatory basis financial statements. The face value of the debt obligations is reported as other financing sources and payments of principal and interest are reported as expenditures. 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.

NOTE 1 – NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash Fund Balances/Net Cash Position
On the statement of net cash position for government-wide reporting and for the proprietary funds' net cash position is segregated into three categories:

1. Restricted – represents net cash position that is not subject solely to the government's own discretion. Restrictions may be placed on net position by an external third party that provided the resources, by laws or regulation of other governments, by enabling legislation, by endowment agreements, or by the nature of the asset. Unspent bond proceeds for capital projects are included in this section.

2. Unrestricted – consists of all other net position that does not meet the definition of "restricted" or "net investment in capital assets".

In the governmental funds financial statements, cash fund balance is segregated into the following categories:

Nonspendable – represents fund balance amounts that cannot be spent because they are either in a nonspendable form or because legal or contractual requirements mandate funds be maintained intact.

Restricted – represents fund balance amounts with constraints placed on their use by either a) external groups such as creditors (through debt covenants), grantors, contributors, or laws or regulations of other governments, or b) imposed by law through constitutional provisions or enabling legislation.

Unrestricted

Committed – amounts constrained for specific purposes that are internally imposed by formal action (resolution) of the City Council, which is the City's highest level of decision-making authority. Committed amounts cannot be used for any other purpose unless the City Council modifies or rescinds the commitments by resolution.

Assigned – amounts assessed for specific purposes that are internally imposed. In governmental funds other than the general fund, assigned fund balance represents all remaining amounts that are not classified as nonspendable and are neither restricted nor committed. In the general fund, assigned amounts represent intended uses established by the City Council itself or by an official to which the governing body delegates authority.

NOTE 1 – NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balance (Continued)

Fund Financial Statements (Continued)

Unrestricted (Continued)

Unassigned – includes residual positive fund balance amounts within the general fund which have not been classified within the other above mentioned categories. Unassigned fund balance may also include negative balances for any other governmental fund if expenditures exceed amounts restricted, committed, or assigned for those purposes.

The City will strive to maintain a minimum assigned or unassigned General Fund balance of six months of operating expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, followed by committed, assigned, and unassigned fund balance.

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Deficit Fund Equity

The Interstate Sign, Tax Increment Financing District No. 1-8 Industrial Park, Tax Increment Financing District 1-9 funds had deficit balances of $1,306, $104, and $2,562, respectively, as of December 31, 2023.

Budgetary Information

GASB Statement No. 34 requires that budget vs. actual information be presented for the general fund and all major special revenue funds that have legally adopted budgets. The following presents the budget process:

In August of each year, City staff submits to the City Council, a proposed operating budget for the year commencing the following January 1. The operating budget includes proposed disbursements and the means of financing them for the upcoming year. Public hearings are conducted to obtain taxpayer comments. The budget is legally enacted through passage of a resolution after obtaining taxpayer comments. Budgets for the General and special revenue funds are adopted on a basis consistent with the regulatory basis of accounting.

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Continued)

Budgetary Information (Continued)
Disbursements may not legally exceed budgeted appropriations at the fund level. No fund's budget can be increased without City Council approval. The City Council may authorize transfer of budgeted amounts between departments within any fund. Management may amend budgets within the fund level, so long as the total fund budget is not changed.

Annual appropriated budgets are adopted during the year for the general and special revenue funds. Annual appropriated budgets are not adopted for debt service funds because effective budgetary control is alternatively achieved through bond indenture provisions. Budgetary control for capital projects funds is accomplished through the use of project controls and formal appropriated budgets are not adopted.

Budgeted amounts are as originally adopted or as amended by the City Council. Individual amendments were not material in relation to original amounts budgeted. Budgeted disbursement appropriations lapse at year-end.

Compliance
The General Fund expenditures exceeded budgeted appropriations by $600,514 for the year ended December 31, 2023. The overage, considered by City management to be a result of necessary disbursements critical to operation, was approved by City Council.

NOTE 3 – DEPOSITS AND INVESTMENTS

Deposits
Minnesota Statues authorize the City to deposit its cash and to invest in certificates of deposit in financial institutions designated by the City Council.

The City maintains a cash and investment pool that is available for use by all funds. As of December 31, 2023, the City's cash and investment balances are reported as follows:

	Governmental Funds	Proprietary Funds	Fiduciary Funds	Total
Cash				
Cash in bank	$ 3,541,980	973256	$ 10,758	$ 4,525,994
Cash on hand	-	1,379	-	1,379
Cash equivalents				
Certificates of deposit	661,478	-	-	661,478
TOTAL	**$ 4,203,458**	**$ 974,635**	**$ 10,758**	**$ 5,188,851**

NOTE 3 – DEPOSITS AND INVESTMENTS (Continued)

Deposits (Continued)
Custodial Credit Risk – the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City maintains its deposits in accordance with Minn. Stat. § 118A.03. Under that statute, all deposits must be covered by Federal Deposit Insurance Corporation (FDIC) or collateralized with eligible securities in an amount equal to 110% of the deposits not covered by FDIC or corporate surety bonds. As of December 31, 2023, the City's deposits with various financial institutions had a bank balance of $5,336,131. Of these deposits, $500,000 was covered by FDIC insurance and $4,836,131 was collateralized in accordance with Minn. Stat. § 118A.03.

Investments
Investment of City funds is restricted by *Minnesota Statutes*. Authorized investments include obligations of the U.S. Treasury and U.S. Agencies, bankers' acceptances, certain repurchase agreements and commercial paper rate A-1 by Standard & Poor's Corporate or P-1 by Moody's Commercial Paper Record. The City had no investments as of December 31, 2023.

NOTE 4 – PROPERTY TAXES AND SPECIAL ASSESSMENTS

Property Tax Collection Calendar
The City levies its property tax for the subsequent year during the month of December. December 28 is the last day the City can certify a tax levy to the County Auditor for collection in the following year. Such taxes become a lien on January 1. Property taxes must be paid by taxpayers in two equal installments on May 15 and October 15. Douglas and Todd Counties are the collecting agencies for the levy and remit collections to the City three times each year. City property tax receipts are recognized in the year received.

The County Auditor prepares the tax list for all taxable property in the City, applying the applicable tax rate to the tax capacity of individual properties, to arrive at the actual tax for each property. The County Auditor also collects all special assessments, except for certain prepayments paid directly to the City. The County Auditor submits the list of taxes and special assessments to be collected on each parcel of property to the County Treasurer in January of each year.

NOTE 5 – INTERFUND TRANSFERS

Amounts were transferred between funds as follows:

Transferred From	Transferred To	Amount
TIF 1-5 Osakis Residential Revolving Housing	General	$ 8,000
Tax Increment Downtown	G.O. Series 2016A Downtown	25,000
Tax Increment Downtown	General	750
Tax Increment Financing District No. 1-8 Industrial P	General	100
Tax Increment Financing District 1-9	General	300
Liquor	General	5,000
General	TIF District No. 1-7 Industrial Park	375

The transfers from TIF 1-5 Osakis Residential Revolving Housing Fund, Tax Increment Downtown, Tax Increment Financing District No. 1-8 Industrial Park, and Tax Increment Financing District 1-9 to the General Fund were made for the purpose of reimbursing for administration fees.

The transfer from the Tax Increment Downtown Fund to the G.O. Series 2016A Downtown Fund was to aid in debt repayment.

The transfer from the Liquor Fund to the General Fund was to aid in operations.

The transfer from the General Fund to the Tax Increment Financing District No. 1-7 Industrial Park Fund was to close out the TIF fund.

NOTE 6 – LONG-TERM OBLIGATIONS

Long-term obligations activity as of December 31 was as follows:

	Balance 2022	Additions	Reductions	Balance 2023	Due Within One Year
Governmental Activities					
General obligation bonds	$ 1,105,000	$ -	$ 270,000	$ 835,000	$ 200,000
Direct borrowings					
Financed purchase	222,477	-	93,324	129,153	63,678
Other liabilities					
Net pension liability	1,097,773	-	63,137	1,034,636	-
TOTAL GOVERNMENTAL ACTIVITIES, NET	**$ 2,425,250**	**$ -**	**$ 426,461**	**$ 1,998,789**	**$ 263,678**

NOTE 6 – LONG-TERM OBLIGATIONS (Continued)

	Balance 2022	Additions	Reductions	Balance 2023	Due Within One Year
Business-Type Activities					
General obligation revenue bonds	$ 2,534,000	$ -	$ 95,000	$ 2,439,000	$ 83,000
Public Facilities revenue notes	1,658,961	-	106,000	1,552,961	108,000
Other liabilities					
Net pension liability	365,331	-	113,345	251,986	-
TOTAL BUSINESS-TYPE ACTIVITIES	**$ 4,558,292**	**$ -**	**$ 314,345**	**$ 4,243,947**	**$ 191,000**

Debt outstanding at December 31, 2023, include the following issues:

	Outstanding	Due Within One Year
Governmental Activities		
General obligation bonds		
$475,000 G.O. improvement note, series 2012A, issued November 21, 2012, due in annual installments of $25,000 to $40,000, through February 2029, interest at 2.25%	$ 215,000	$ 35,000
$865,000 G.O. PIR crossover refunding bond, series 2014A, issued October 1, 2014, due in annual installments of $100,000 to $115,000, through February 2024, interest at 2.00% to 3.00%	115,000	115,000
$805,000 G.O. PIR revolving fund bond, series 2016A, issued June 1, 2016, due in annual installments of $50,000 to $60,000 through February 2032, interest at 1.10 to 2.55%	505,000	50,000
Total general obligation bonds	835,000	200,000
Financed Purchases		
$191,740 lease-purchase agreement, dated March 1, 2022, due in annual installments of $67,325 including interest at 2.824%, through October 2025	129,153	63,678
TOTAL GOVERNMENTAL ACTIVITIES	**$ 964,153**	**$ 263,678**

NOTE 6 – LONG-TERM OBLIGATIONS (Continued)

	Outstanding	Due Within One Year
Business-Type Activities		
General Obligation Revenue Bonds		
$1,275,000 G.O. water revenue bond, series 2013A, issued February 21, 2013, due in annual installments of $20,000 to $50,000, through January 2053, interest at 2.50%	$ 1,079,000	$ 25,000
$433,000 G.O. water revenue bond, series 2013B, issued February 21, 2013, due in annual installments of $7,000 to $17,000, through January 2053, interest at 2.50%	366,000	8,000
$360,000 G.O. utility revenue bond, series 2017A, issued September 19, 2017, due in annual installments of $16,000 to $30,000, through February 2033, interest at 3.20%	261,000	23,000
$774,000 G.O. disposal system note, series 2022A, issued August 8, 2022, due in annual installments of $27,000 to $52,000, through February 2042, interest at 3.70%	733,000	27,000
Total General Obligation Revenue Bonds	2,439,000	83,000
General obligation revenue notes - Public Facilities Authority (PFA)		
$507,614 G.O. revenue notes - PFA, issued August 2, 2016, due in annual installments of $11,083 to $28,000, through August 2036, interest at 1.00%	349,000	25,000
$476,199 G.O. revenue notes - PFA, issued August 2, 2016, due in annual installments of $11,048 to $26,000, through August 2036, interest at 1.00%	326,000	24,000
$475,604 G.O. revenue notes - PFA, issued February 26, 2018, due in annual installments of $10,000 to $28,604, through August 2037, interest at 1.00%	369,000	25,000
$653,961 G.O. revenue notes - PFA, issued February 26, 2018, due in annual installments of $12,000 to $38,961, through August 2037, interest at 1.00%	508,691	34,000
Total G.O. Revenue Notes - PFA	1,552,691	108,000
TOTAL BUSINESS-TYPE ACTIVITIES	**$ 3,991,691**	**$ 191,000**

NOTE 6 – LONG-TERM OBLIGATIONS (Continued)

The annual debt service requirements to maturity for long-term bonds and notes outstanding are as follows:

	Governmental Activities		Business-Type Activities	
Year Ending December 31,	**Principal**	**Interest**	**Principal**	**Interest**
2024	263,678	20,534	191,000	86,260
2025	155,475	15,252	194,000	82,699
2026	90,000	11,598	198,000	78,855
2027	90,000	9,697	201,000	75,005
2028	90,000	7,699	206,000	71,043
2029 - 2033	275,000	12,530	1,091,000	292,436
2034 - 2038	-	-	858,961	190,423
2039 - 2043	-	-	449,000	109,469
2044 - 2048	-	-	282,000	61,638
2049 - 2053	-	-	321,000	24,476
TOTAL	**$ 964,153**	**$ 77,310**	**$ 3,991,961**	**$ 1,072,304**

NOTE 7 – CONDUIT DEBT

Conduit debt represents debt for which the City has no obligation for debt repayment beyond the resources provided from the related leases or loans incorporated within the debt documents. At December 31, 2023, the following conduit debt existed relating to the Community Memorial Home:

Community Memorial Home Project, Series 2017	**$ 1,815,464**

NOTE 8 – DEFINED BENEFIT PENSION PLANS

Plan Description
All full-time and certain part-time employees of the City are covered by defined benefit plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Plan (accounted for in the General Employees Fund) and the Public Employees Police and Fire Retirement Plan (accounted for in the Police and Fire Fund), which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with *Minnesota Statutes*, Chapters 353 and 356.

NOTE 8 – DEFINED BENEFIT PENSION PLANS (Continued)

Plan Description (Continued)
General Employees Plan members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan. All police officers, firefighters and peace officers who qualify for membership by statute are covered by the Police and Fire Plan.

PERA provides retirement benefits as well as disability benefits to members and survivor benefits upon death of eligible members. Benefits are established by state statute. Benefits for the General Employees Plan vest after five years of credited service. Benefits for the Police and Fire Plan vest on a prorated basis from 50% after 10 years up to 100% after 20 years. The defined benefit retirement plan benefits are based on a member's highest average salary for any 5 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% for each of the first 10 years of service and 1.7% for each additional year. The rates are 2.2% and 2.7%, respectively, for Basic members. Under Method 2, the accrual rate for Coordinated members is 1.7% for all years of service, and 2.7% for Basic members. 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.

For all General Employee Plan members hired prior to July 1, 1989 whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Method 2 provides for unreduced retirement benefits at age 65 for members first hired prior to July 1, 1989 or age 66 (the age for unreduced Social Security benefits), for those first hired on or after that date. Early retirement may begin at age 55 with an actuarial reduction (about six percent per year) for members retiring prior to full retirement age.

Normal retirement age is 55 for Police and Fire and Correctional plan members and 65 for Basic and Coordinated members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for Coordinated members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement with an actuarial reduction in the member's benefit.

A full unreduced pension is earned when Police and Fire plan members meet the following conditions: age 55 and vested or age plus years of service total at least 90 if first hired prior to July 1, 1989.

NOTE 8 – DEFINED BENEFIT PENSION PLANS (Continued)

Plan Description (Continued)
There are different types of annuities available to members upon retirement. A single-life annuity is a lifetime annuity that ceases upon the death of the retiree-no survivor annuity is payable. There are also various types of joint and survivor annuity options available which will be payable over joint lives. Members may also leave their contributions in the fund upon termination of public service in order to qualify for a deferred annuity at retirement age. Refunds of contributions are available at any time to members who leave public service, but before retirement benefits begin.

The benefit provisions stated in the previous paragraphs of this section are current provisions and apply to active plan participants.

PERA issues a publicly available financial report that includes financial statements and required supplementary information for the General Employees Plan. That report may be obtained on PERA's website www.mnpera.org.

Funding Policy
Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. In 2021, Coordinated Plan members were required to contribute 6.5% of their annual covered salary and Police and Fire Plan members were required to contribute 11.8% of their annual covered salary.

The City makes annual contributions to the pension plans equal to the amount required by state statutes. In 2021, the City was required to contribute the following percentages of annual covered payroll: 7.5% for Coordinated Plan members and 17.70% for Police and Fire Plan members.

The City's contributions to the General Employees Fund for the years ending December 31, 2023, 2022, and 2021 were $40,031, $37,309, and $34,609, respectively. The City's contributions to the Police and Fire Fund for the years ending December 31, 2023, 2022, and 2021 were $42,186, $39,356, $44,852, respectively.

Osakis Firemen's Relief Association
Plan Description
The Osakis Firemen's Relief Association participates in the Statewide Volunteer Firefighter Retirement Plan (Volunteer Firefighter 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, 2023, the plan covered 20 active firefighters and 2 vested terminated firefighters whose pension benefits are deferred. The plan is established and administered in accordance with *Minnesota Statutes*, Chapter 353G.

NOTE 8 – DEFINED BENEFIT PENSION PLANS (Continued)

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

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 $37,379 in fire state aid for the year ended December 31, 2023. Required employer contributions are calculated annually based on statutory provisions. The City did not have any statutorily-required contributions to the SVF plan for the year ended December 31, 2023.

Detailed information about the Volunteer Firefighter Fund's fiduciary net position as of June 30, 2023 is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained at www.mnpera.org.

NOTE 9 – OTHER POST EMPLOYMENT BENEFITS

The City's current employment agreements state the City will pay 100% of negotiated health and medical insurance premiums for employees whose employment ends with the City after 25 years of service until that employee becomes eligible for Medicare health insurance or is eligible for employer covered health insurance elsewhere. Employees hired after January 1, 2007, must be at least 55 years of age to receive the benefit. During the year ended December 31, 2023, the City paid retiree benefits for one retiree totaling $18,936.

NOTE 10 – LEASES

The City leases space in the City liquor store to Nelson Community Club for the operation of the gambling booth. The term of the lease agreement is concurrent with the premises permit issued by the Gambling Control Board. The City receives monthly rent based on 20% of gross profits from paper pull-tabs and 15% of gross profits from e-tabs, which amounted to $58,028 in 2023.

NOTE 11 – TAX INCREMENT FINANCING

The City has entered into four Tax Increment Financing (TIF) agreements. The City's authority to enter into these agreements comes from *Minnesota Statute* 469. These agreements are for the purpose of promoting economic development and housing opportunities.

Under each agreement, the City and developer agree on an amount of development costs to be reimbursed to the developer by the City through tax revenues from the additional taxable value of the property generated by the development (tax increment). A "pay-as-you-go" note is established for this amount, on which the City makes payments for a fixed period of time with available tax increment revenue after deducting for certain administrative costs. The notes are not debt of the City and the City is not liable on the notes, except for the City's obligations to make payments of pledged tax increment from the applicable TIF district. The notes shall not be payable out of any funds or properties other than pledged tax increment.

During the year ended December 31, 2023, the City generated $158,368 in tax increment revenue on all four TIF districts and made $65,821 in payments to developers. The following four agreements represent the tax increment generated on the pay-as-you-go TIF districts during the year:

- TIF District No. 1-5 is a housing district established in 2000 for the purpose of establishing new retail real estate on a parcel of blighted property. All obligations have been paid in full for this TIF district. The district has been modified to allow the City to continue to collect increment in the district to support low to moderate housing development in the City. During the year ended December 31, 2023, the district generated $112,336 of tax increment revenue.
- TIF District No. 1-6 is a redevelopment district established in 2008. The district was reconstructed from original purpose. The City issued bonds to reconstruct the infrastructure for downtown. As part of the bonding, $395,000 was allocated from this TIF district. Tax increment revenue generated is being used to assist in debt repayment of the 2016A G.O. Bonds. During the year ended December 31, 2023, the district generated $32,264 of tax increment revenue.
- TIF District No. 1-8 is an economic development district established in 2015. Under the agreement, up to $45,000 of development costs plus interest at 4% will be reimbursed through tax increment. Duration of the TIF district is 10 years from the date of receipt of the first increment by the City. During the year ended December 31, 2023, the district generated $3,809 of tax increment revenue. The note's balance at year-end was $41,098.
- TIF District No. 1-9 is a housing district established in 2017. Under the agreement, up to $125,000 of development costs will be reimbursed through tax increment. Duration of the TIF district is 25 years from the date of receipt of the first increment by the City. During the year ended December 31, 2023, the district generated $9,959 of tax increment revenue. The note's balance at year-end was $83,715.

NOTE 11 – TAX INCREMENT FINANCING (Continued)

One agreement exceeded 10% of the total tax increment generated throughout the year.

- TIF District No. 1-5 was established in 2000 for the purpose of establishing new retail real estate on a parcel of blighted property. Under the agreement, up to $1,356,000 of development costs will be reimbursed through tax increment over a 27 year period. During the year ended December 31, 2023, the City generated $112,336 of tax increment revenue and made payments on the pay-as-you-go note of $0. The note's balance at year-end was $0.

NOTE 12 – RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; job-related illnesses or injuries to employees and natural disasters. The City has entered into a joint powers agreement with the League of Minnesota Cities Insurance Trust (LMCIT). The LMCIT is a public entity risk pool currently operating as a common risk management and insurance program for Minnesota cities. The City also carries commercial insurance for certain other risks of loss.

The agreement for formation of the LMCIT provides that the pool will be self-sustaining through member assessments and will reinsure through commercial companies for claims in excess of reserved amounts for each insured event. The LMCIT can make additional assessments to make the pool self-sustaining. The City has determined that it is not possible to estimate the amount of such additional assessments; however, they are not expected to be material to the financial statements.

There were no significant reductions in insurance coverage from the previous year or settlements in excess of insurance coverage for any of the past three fiscal years.

SUPPLEMENTARY INFORMATION

CITY OF OSAKIS, MINNESOTA
BUDGETARY COMPARISON SCHEDULE - CASH BASIS
GENERAL FUND
Year Ended December 31, 2023

	Budgeted Amounts			Variance
	Original	Final	Actual Amounts	Over (Under)
BEGINNING FUND BALANCE - JANUARY 1	$ 2,387,391	$ 2,387,391	$ 2,387,391	$ -
RECEIPTS				
Taxes				
Property taxes	679,378	679,378	725,619	46,241
Franchise taxes	12,000	12,000	13,068	1,068
Lodging taxes	24,000	24,000	1,290	(22,710)
Total Taxes	715,378	715,378	739,977	24,599
Licenses and permits	43,000	43,000	51,602	8,602
Intergovernmental				
State grants and aids				
Local government aid	521,701	521,701	521,701	-
Market value credit - agricultural	340	340	308	(32)
Police aid	28,500	28,500	27,224	(1,276)
Other state aids	2,710	2,710	86,582	83,872
Total Intergovernmental	553,251	553,251	635,815	82,564
Charges For Services				
Fire safety	11,000	11,000	11,000	-
Highways and streets	10,000	10,000	8,765	(1,235)
Community center rent	10,400	10,400	12,856	2,456
Other charges for services	13,250	13,250	9,450	(3,800)
Total Charges For Services	44,650	44,650	42,071	(2,579)
Fines and forfeitures	9,500	9,500	9,398	(102)
Miscellaneous				
Investment earnings	27,000	27,000	34,199	7,199
Contributions and donations	54,250	54,250	114,725	60,475
Refunds	5,900	5,900	2,745	(3,155)
Other	2,500	2,500	1,767	(733)
Total Miscellaneous	89,650	89,650	153,436	63,786
Total Receipts	1,455,429	1,455,429	1,632,299	176,870
OTHER FINANCING SOURCES				
Sale of assets	-	-	24,047	24,047
Insurance recovery	-	-	11,047	11,047
Transfers in	-	-	14,150	14,150
Total Other Financing Sources	-	-	49,244	49,244
Total Receipts and Other Financing Sources	1,455,429	1,455,429	1,681,543	226,114
AMOUNTS AVAILABLE FOR APPROPRIATION	3,842,820	3,842,820	4,068,934	226,114

CITY OF OSAKIS, MINNESOTA
BUDGETARY COMPARISON SCHEDULE - CASH BASIS
GENERAL FUND
Year Ended December 31, 2023

	Budgeted Amounts			Variance
	Original	Final	Actual Amounts	Over (Under)
DISBURSEMENTS				
General Government				
Mayor and council	$ 26,960	$ 26,960	$ 34,473	$ 7,513
Clerk / finance and administration	171,390	171,390	169,116	(2,274)
Elections	1,117	1,117	1,819	702
Professional fees	49,000	49,000	50,363	1,363
Other general government	25,350	25,350	77,399	52,049
Total General Government	273,817	273,817	333,170	59,353
Public Safety				
Police protection	440,949	440,949	450,945	9,996
Fire protection	50,930	50,930	107,990	57,060
First responders	30,945	30,945	30,888	(57)
Building inspection	19,250	19,250	26,804	7,554
Civil defense	1,200	1,200	-	(1,200)
Total Public Safety	543,274	543,274	616,627	73,353
Streets				
Maintenance	123,584	123,584	202,288	78,704
Culture and Recreation				
Visitor's center	-	-	7,383	7,383
Community center	-	-	26,585	26,585
Beach	-	-	13,518	13,518
Ice rink	-	-	243	243
Parks	-	-	24,184	24,184
Total Culture and Recreation	-	-	71,913	71,913
Economic development	-	-	27,083	27,083
Miscellaneous				
Cemetary	-	-	8,425	8,425
Insurance (unallocated)	-	-	121,622	121,622
Advertising	-	-	27,083	27,083
Other	-	-	(3,183)	(3,183)
Total miscellaneous	-	-	153,947	153,947
Capital Outlay				
Government buildings	11,000	11,000	40,850	29,850
Police	13,586	13,586	74,897	61,311
Streets	-	-	29,750	29,750
Community center	-	-	14,875	14,875
Total capital outlay	24,586	24,586	160,372	135,786
Total Disbursements	965,261	965,261	1,565,400	600,139
Other Financing Uses				
Transfers to other funds	-	-	375	375
Total disbursements and other financing uses (Charges to appropriations)	965,261	965,261	1,565,775	600,514
ENDING BUDGETARY FUND BALANCE - DECEMBER 31	**$ 2,877,559**	**$ 2,877,559**	**$ 2,503,159**	**$ (374,400)**

CITY OF OSAKIS, MINNESOTA
BUDGETARY COMPARISON SCHEDULE - CASH BASIS
FIRE SERVICE & EQUIPMENT FUND
Year Ended December 31, 2023

	Budgeted Amounts			Variance
			Actual	Over
	Original	Final	Amounts	(Under)
BEGINNING FUND BALANCE - JANUARY 1	$ 170,038	$ 170,038	$ 170,038	$ -
RECEIPTS				
Charges For Services				
Township fire contracts	109,000	109,000	116,704	7,704
Miscellaneous				
Investment earnings	800	800	1,589	789
Contributions and donations	2,000	2,000	700	(1,300)
Total Miscellaneous	2,800	2,800	2,289	(511)
Total Receipts	111,800	111,800	118,993	7,193
OTHER FINANCING SOURCES				
Sale of assets	-	-	21,500	21,500
Insurance recovery	-	-	96,697	96,697
Total Other Financing Sources	-	-	118,197	118,197
Total Receipts and Other Financing Sources	111,800	111,800	237,190	125,390
AMOUNTS AVAILABLE FOR APPROPRIATION	281,838	281,838	407,228	125,390
DISBURSEMENTS				
Public Safety				
Fire protection	11,450	11,450	118,059	106,609
Debt Service				
Principal	93,323	93,323	93,324	1
Interest	6,057	6,057	6,057	-
Total Debt Service	99,380	99,380	99,381	1
Capital Outlay				
Fire	200,000	200,000	90,331	(109,669)
Total Disbursements	310,830	310,830	307,771	(3,059)
Total disbursements and other financing uses (Charges to appropriations)	310,830	310,830	307,771	(3,059)
ENDING BUDGETARY FUND BALANCE - DECEMBER 31	**$ (28,992)**	**$ (28,992)**	**$ 99,457**	**$ 128,449**

CITY OF OSAKIS, MINNESOTA
COMBINING STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH FUND BALANCES
NONMAJOR FUNDS
Year Ended December 31, 2023

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Total
RECEIPTS				
Property taxes	$ -	$ 70,733	$ -	$ 70,733
Special assessments	-	84,662	27,176	111,838
Tax increment	-	-	46,032	46,032
Charges for services	263	-	-	263
Investment earnings	1,401	4,668	4,092	10,161
Contributions and donations	42,609	-	-	42,609
Miscellaneous	-	-	55,071	55,071
Total Receipts	44,273	160,063	132,371	336,707
DISBURSEMENTS				
Current				
Public safety	3,718	-	-	3,718
Streets	-	-	1,152	1,152
Culture and recreation	798	-	-	798
Economic development	18,571	-	15,001	33,572
Miscellaneous	1,517	-	-	1,517
Debt service				
Principal	-	270,000	-	270,000
Interest	-	24,566	-	24,566
Capital outlay	27,728	-	-	27,728
Total Disbursements	52,332	294,566	16,153	363,051
RECEIPTS OVER (UNDER) DISBURSEMENTS	(8,059)	(134,503)	116,218	(26,344)
OTHER FINANCING SOURCES (USES)				
Transfers in	-	25,000	375	25,375
Transfers out	-	-	(26,150)	(26,150)
Net Other Financing Sources (Uses)	-	25,000	(25,775)	(775)
CHANGE IN CASH FUND BALANCES	(8,059)	(109,503)	90,443	(27,119)
CASH FUND BALANCES - BEGINNING	198,531	643,366	165,048	1,006,945
CASH FUND BALANCES - ENDING	**$ 190,472**	**$ 533,863**	**$ 255,491**	**$ 979,826**

CITY OF OSAKIS, MINNESOTA
COMBINING STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
Year Ended December 31, 2023

	First Responders	Economic Development Authority	Osakis Economic Development Commission	Interstate Sign	Cemetery	DWI Assessment	National Night Out	COVID Funding	Community Park & Rec	Lodging Tax Payments	Total
RECEIPTS											
Charges for services	$ -	$ -	$ -	$ -	$ 263	$ -	$ -	$ -	$ -	$ -	$ 263
Investment earnings	883	96	-	-	422	-	-	-	-	-	1,401
Contributions and donations	10,140	3,346	5,400	600	-	-	1,263	-	21,860	-	42,609
Total Receipts	11,023	3,442	5,400	600	685	-	1,263	-	21,860	-	44,273
DISBURSEMENTS											
Current											
Public safety	3,718	-	-	-	-	-	-	-	-	-	3,718
Culture and recreation	-	-	-	-	-	-	-	-	798	-	798
Economic development	-	11,971	5,400	1,200	-	-	-	-	-	-	18,571
Miscellaneous	-	-	-	-	-	-	1,286	231	-	-	1,517
Capital outlay	-	-	-	-	-	-	-	-	27,728	-	27,728
Total Disbursements	3,718	11,971	5,400	1,200	-	-	1,286	231	28,526	-	52,332
CHANGE IN CASH FUND BALANCES	7,305	(8,529)	-	(600)	685	-	(23)	(231)	(6,666)	-	(8,059)
CASH FUND BALANCES - BEGINNING	62,740	14,172	2,345	(706)	42,017	1,214	1,059	14,104	57,673	3,913	198,531
CASH FUND BALANCES - ENDING	**$ 70,045**	**$ 5,643**	**$ 2,345**	**$ (1,306)**	**$ 42,702**	**$ 1,214**	**$ 1,036**	**$ 13,873**	**$ 51,007**	**$ 3,913**	**$ 190,472**

CITY OF OSAKIS, MINNESOTA
COMBINING STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH FUND BALANCES
NONMAJOR DEBT SERVICE FUNDS
Year Ended December 31, 2023

	G.O. Bonds of 2008A and 2014A	G.O. Refunding Bonds of 2010A	G.O. Series 2016A Downtown	G.O. Series 2012A Rural Water Loan	Total
RECEIPTS					
Property taxes	$ 60,308	$ 679	$ (148)	$ 9,894	$ 70,733
Special assessments	39,531	2,591	28,397	14,143	84,662
Investment earnings	2,085	2,408	-	175	4,668
Total Receipts	101,924	5,678	28,249	24,212	160,063
DISBURSEMENTS					
Debt service					
Principal	115,000	75,000	50,000	30,000	270,000
Interest	5,722	1,331	12,337	5,176	24,566
Total Disbursements	120,722	76,331	62,337	35,176	294,566
RECEIPTS UNDER DISBURSEMENTS	(18,798)	(70,653)	(34,088)	(10,964)	(134,503)
OTHER FINANCING SOURCES (USES)					
Transfers in	-	-	25,000	-	25,000
CHANGE IN CASH FUND BALANCES	(18,798)	(70,653)	(9,088)	(10,964)	(109,503)
CASH FUND BALANCES - BEGINNING	164,530	183,197	269,985	25,654	643,366
CASH FUND BALANCES - ENDING	**$ 145,732**	**$ 112,544**	**$ 260,897**	**$ 14,690**	**$ 533,863**

CITY OF OSAKIS, MINNESOTA
COMBINING STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH FUND BALANCES
NONMAJOR CAPITAL PROJECTS FUNDS
Year Ended December 31, 2023

	Tax Increment Financing District No. 1-8 Industrial Park	Tax Increment Downtown	Industrial Park	Tax Increment Financing District No. 1-7 Industrial Park	Tax Increment Financing District 1-9	Total
RECEIPTS						
Special assessments	$ -	$ -	$ 27,176	$ -	$ -	$ 27,176
Tax increment	3,809	32,264	-	-	9,959	46,032
Investment earnings	-	-	4,092	-	-	4,092
Miscellaneous	-	-	55,071	-	-	55,071
Total Receipts	3,809	32,264	86,339	-	9,959	132,371
DISBURSEMENTS						
Current						
Streets	-	-	1,152	-	-	1,152
Economic development	4,298	870	-	-	9,833	15,001
Total Disbursements	4,298	870	1,152	-	9,833	16,153
RECEIPTS OVER (UNDER) DISBURSEMENTS	(489)	31,394	85,187	-	126	116,218
OTHER FINANCING SOURCES (USES)						
Transfers in	-	-	-	375	-	375
Transfers out	(100)	(25,750)	-	-	(300)	(26,150)
Net Other Financing Sources (Uses)	(100)	(25,750)	-	375	(300)	(25,775)
CHANGE IN CASH FUND BALANCES	(589)	5,644	85,187	375	(174)	90,443
CASH FUND BALANCES - BEGINNING	485	5,062	162,264	(375)	(2,388)	165,048
CASH FUND BALANCES - ENDING	**$ (104)**	**$ 10,706**	**$ 247,451**	**$ -**	**$ (2,562)**	**$ 255,491**

CITY OF OSAKIS, MINNESOTA
SCHEDULE OF INDEBTEDNESS AND OTHER LONG-TERM LIABILITIES
Year Ended December 31, 2023

	Interest Rate %	Issue Date	Final Maturity Date	Outstanding January 1, 2023	Issued in 2023	Paid in 2023	Outstanding December 31, 2023
Bonded Indebtedness							
General Obligation							
2010A GO refunding bonds	3.25%	6/8/2010	2/1/2023	$ 75,000	$ -	$ 75,000	$ -
2012A GO improvement note	2.25%	11/21/2012	2/1/2029	245,000	-	30,000	215,000
2014A GO PIR crossover refunding	3.00%	10/1/2014	2/1/2024	230,000	-	115,000	115,000
2016A GO PIR revolving fund bond	1.10%	6/1/2016	2/1/2032	555,000	-	50,000	505,000
Total General Obligation				1,105,000	-	270,000	835,000
Revenue Bonds							
2013A GO water revenue bond	2.50%	2/21/2013	1/1/2053	1,103,000	-	24,000	1,079,000
2013B GO water revenue bond	2.50%	2/21/2013	1/1/2053	374,000	-	8,000	366,000
2017A GO utility revenue bond	3.20%	9/19/2017	2/1/2033	283,000	-	22,000	261,000
2016 PFA water revenue notes	1.00%	8/2/2016	8/1/2036	374,000	-	25,000	349,000
2016 PFA sewer revenue notes	1.00%	8/2/2016	8/1/2036	349,000	-	23,000	326,000
2018 PFA water revenue notes	1.00%	2/26/2018	8/1/2037	393,000	-	24,000	369,000
2018 PFA sewer revenue notes	1.00%	2/26/2018	8/1/2037	542,961	-	34,000	508,961
2022A GO disposal system note	3.70%	8/8/2022	2/1/2042	774,000	-	41,000	733,000
Total Revenue Bonds				4,192,961	-	201,000	3,991,961
Total Bonded Indebtedness				5,297,961	-	471,000	4,826,961
Other Long-Term Indebtedness							
Installment purchase contracts				222,477	-	62,587	159,890
TOTAL INDEBTEDNESS				**$ 5,520,438**	**$ -**	**$ 533,587**	**$ 4,986,851**
Other Long-Term Liabilities							
Net pension liability							
PERA							**$ 1,286,622**

CITY OF OSAKIS, MINNESOTA
SCHEDULE OF ACCOUNTS RECEIVABLE
Year Ended December 31, 2023

FUND	SOURCE OF REVENUE AND PURPOSE	AMOUNT
Water	Various customers - utilities	$ 52,149
Sewer	Various customers - utilities	35,003
Garbage/recycling	Various customers - utilities	11,760
Liquor	Various customers - credit cards	10,014
TOTAL		**$ 108,926**

CITY OF OSAKIS, MINNESOTA
SCHEDULE OF ACCOUNTS PAYABLE
Year Ended December 31, 2023

FUND	VENDOR NAME	ITEM AND PURPOSE	AMOUNT
General	CleanChoice Energy	November solar fees	$ 927
	Cybersprout	December website services	24
	Flaherty & Hood, P.A.	December consulting services	675
	Inspectron Inc.	Inspection fees	4,742
	Melrose 1 Stop	Truck repairs	324
	Metro Sales Inc.	Copies	461
	Novel Energy Solutions, Inc.	November and December solar fees	298
	Thornton, Dolan, Bowen, Klecker & Burkhammer, P.A.	Legal fees	1,132
	VISA	Credit card charges	360
	Dan Wessel	Mileage reimbursement	28
	Deluxe Oil	Fuel	2,407
	Garden Valley Technologies	Telephone	30
	Long Prairie Leader	Newspaper ads	295
	OK Tire Stores - Motley	New tires	1,546
	West Central Sanitation	Garbage service	5
	WSB	Meetings	268
	American Welding	Credit and lease	15
	Creative Product Sourcing	DARE supplies	589
	Lakes Country Service Coop	Training	551
	Northdale Oil, Inc.	Fuel	274
	Ultimate Auto Care	Vehicle inspections	351
	Verizon	Telephone	307
			15,609
First Responders	North Ambulance	Training	200
Economic Development Authority	Thornton, Dolan, Bowen, Klecker & Burkhammer, P.A.	Legal fees	13
TIF 1-5 Osakis Residential Revolving Housing	Thornton, Dolan, Bowen, Klecker & Burkhammer, P.A.	Legal fees	64
Water	CleanChoice Energy	November solar fees	926
	Novel Energy Solutions, Inc.	November and December solar fees	249
	MN Department of Revenue	December sales tax	537
	Deluxe Oil	Fuel	73
	NERO Engineering	Project engineering fees	6,880
			8,665
Sewer	CleanChoice Energy	November solar fees	986
	Flaherty & Hood, P.A.	Permit matter	424
	Novel Energy Solutions, Inc.	November and December solar fees	66
	Deluxe Oil	Fuel	73
			1,549
Garbage	West Central Sanitation	Garbage - December	10,309
Liquor	Novel Energy Solutions, Inc.	November and December solar fees	705
	Moritz Septic Service	December pumping	700
	North Star Medical Services	Testing	29
	HBI Radio Alexandria	Advertising	612
	Lakes Country Service Coop	Training	130
	Premium Waters Inc.	Water	30
			2,206
TOTAL			**$ 38,615**

OTHER REPORTS

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

To the Honorable Mayor and Members of the City Council
City of Osakis, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Osakis, Minnesota as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated April 29, 2024.

Report on Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in internal control, described in the accompanying schedule of current year findings and responses as items 2023-001 and 2023-002 that we consider to be significant deficiencies.

Report Compliance and Other Matters
As part of obtaining reasonable assurance about whether the City's financial statements are free of 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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

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

City of Osakis, Minnesota's Response to Findings
Government Auditing Standards requires the auditor to perform limited procedures on the City of Osakis, Minnesota's response to the findings identified in our audit and described in the accompanying schedule of current year findings and responses. The City's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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

Fergus Falls, Minnesota
April 29, 2024

SIGNIFICANT DEFICIENCIES

2023-001. Lack of Segregation of Duties

Criteria: Management is responsible for establishing and maintaining internal control. Adequate segregation of duties is a key control in preventing and detecting errors or irregularities. To protect City assets, proper segregation of the record keeping, custody, and authorization functions should be in place, and where management decides segregation of duties may not be cost effective, compensating controls should be in place.

Condition: The City has a limited number of office personnel and, accordingly, does not have adequate separation of duties in cash receipts, cash disbursements, accounts payable and purchasing, payroll and related liabilities, and general ledger maintenance and reconciliation. An effective internal control structure provides an adequate segregation of duties so that no one individual handles a transaction from its inception to its completion.

Cause: The City has a limited number of office personnel and inadequate internal controls.

Effect: The failure to properly segregate duties increases the risk that misstatement may occur and not be detected within a time period by employees in the normal course of performing their assigned functions.

Management's Response and Actions Planned: The City's management is aware of this condition and believes that it is not economically feasible to attain the ideal segregation of duties. Management is attempting to mitigate the associated risks by doing the following:

1. Identifying areas lacking segregation of duties and where there is higher risk of fraud occurring.
2. Implementing limited segregation to the extent possible to reduce risks without impairing efficiency.
3. Using the knowledge of management and the Council to review accounting records and reports.

2023-002. Preparation of Financial Statements and Related Footnotes

Criteria: Internal controls over financial reporting include those related to the actual preparation and review of the audited financial statements. In order to prepare a complete set of financial statements in conformity with the regulatory basis of accounting, the preparer must have the necessary expertise.

Condition: The City does not have an internal control system designed to provide for the preparation of the financial statements being audited. City personnel do prepare periodic financial statements and other financial information for internal use that meets the needs of management and council. However, the City does not have the internal resources to prepare full-disclosure financial statements required by the regulatory basis of accounting for external reporting. As auditors, we were requested to draft the financial statements and accompanying footnotes.

Cause: The City does not have the resources to compile their own financial statements.

Effect: This control deficiency could result in a misstatement to the financial statements that would not be prevented or detected.

Management's Response and Actions Planned: The City's management is aware of this significant deficiency. Management reviews and approves the draft annual audited financial statements and distributes them to users. For entities of this size, it generally is not practical to obtain the internal expertise needed to handle all aspects of the external financial reporting. Management recognizes this and feels it is effectively handling its reporting responsibilities with the procedures described above.