



Annual Financial Report

City of Arlington

Arlington, Minnesota

For the year ended December 31, 2022



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City of Arlington, Minnesota
Annual Financial Report
Table of Contents
For the Year Ended December 31, 2022

	<u>Page No.</u>
Introductory Section	
Elected and Appointed Officials	9
Financial Section	
Independent Auditor's Report	13
Management's Discussion and Analysis	17
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Position	31
Statement of Activities	32
Fund Financial Statements	
Governmental Funds	
Balance Sheet	36
Reconciliation of the Balance Sheet to the Statement of Net Position	39
Statement of Revenues, Expenditures and Changes in Fund Balances	40
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	43
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - General, Ambulance and Medical Center Funds	44
Proprietary Funds	
Statement of Net Position	46
Statement of Revenues, Expenses and Changes in Net Position	47
Statement of Cash Flows	48
Notes to the Financial Statements	49
Required Supplementary Information	
Schedule of Employer's Share of Public Employees Retirement Association Net Pension Liability - General Employees Retirement Fund	82
Schedule of Employer's Public Employees Retirement Association Contributions - General Employees Retirement Fund	82
Notes to the Required Supplementary Information - General Employees Retirement Fund	83
Schedule of Employer's Share of Public Employees Retirement Association Net Pension Liability - Public Employees Police and Fire Fund	85
Schedule of Employer's Public Employees Retirement Association Contributions - Public Employees Police and Fire Fund	85
Notes to the Required Supplementary Information - Public Employees Police and Fire Fund	86
Schedule of Changes in the Fire Relief Association's Net Pension Liability (Asset) and Related Ratios	88
Notes to the Required Supplementary Information - Fire Relief Association	88
Schedule of Employer's Fire Relief Associations Contributions	89

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City of Arlington, Minnesota
 Annual Financial Report
 Table of Contents (Continued)
 For the Year Ended December 31, 2022

	<u>Page No.</u>
Combining and Individual Fund Financial Statements and Schedules	
Nonmajor Governmental Funds	
Combining Balance Sheet	92
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	93
Nonmajor Special Revenue Funds	
Combining Balance Sheet	94
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	96
Schedules of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual	
Fire Fund	98
Community Hall Fund	99
EDA Loan Programs	100
Revolving Loan	101
Cemetery Fund	102
Cemetery Perpetual Fund	103
Nonmajor Capital Project Funds	
Combining Balance Sheet	104
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	105
General Fund	
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual	106
Debt Service Funds	
Combining Balance Sheet	110
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	112
Summary Financial Report	
Revenues and Expenditures for General Operations - Governmental Funds	114
 Other Required Reports	
Independent Auditor's Report	
on Minnesota Legal Compliance	117
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 <i>Government Auditing Standards</i>	118
Schedule of Findings and Responses	120

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INTRODUCTORY SECTION

CITY OF ARLINGTON
ARLINGTON, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2022

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City of Arlington, Minnesota
Elected and Appointed Officials
For the Year Ended December 31, 2022

Elected

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Richard Nagel	Mayor	12/31/22
Michelle Battcher	Vice Mayor	12/31/22
David Meyer	Council	12/31/24
Joe Morgan	Council	12/31/22
Matthew Scharpe	Council	12/31/24
John Thomes	Council	12/31/24

Appointed

Shirley Slater-Schulte	Interim Administrator
Ross Arneson	Attorney

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FINANCIAL SECTION
CITY OF ARLINGTON
ARLINGTON, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2022

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council
City of Arlington, Minnesota

Opinions

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, each major fund and the aggregate remaining fund information of the City as of December 31, 2022, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparisons for the General, Ambulance and Medical Center funds for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Change in Accounting Principle

As described in Note 7 to the financial statements, the City adopted the provisions of Governmental Accounting Standard Board (GASB) Statement No. 87, Leases, for the year ended December 31, 2022. Adoption of the provisions of these statements results in significant change to the classifications of the components of the financial statements. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis starting on page 17 and the Schedule of Employer's Share of the Net Pension Liability, the Schedule of Employer's Contributions, the related note disclosures, the Schedule of Changes in Net Pension Liability (Asset) and Related Ratios, starting on page 82 be presented to supplement the basic financial statements. Such 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, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



Supplementary Information

Our audit was conducted for the purpose of forming opinion on the financial statements that collectively comprise the City's basic financial statements. The accompanying combining and individual nonmajor fund financial statements and schedules 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 related 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 combining and individual nonmajor fund financial statements and schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information in the annual report. The other information comprises the introductory section but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statement do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 29, 2023 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



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Mankato, Minnesota
June 29, 2023



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Management's Discussion and Analysis

As management of the City of Arlington, Minnesota, (the City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2022.

Financial Highlights

- The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$20,395,478 (net position). Of this amount, \$4,666,750 (unrestricted assets) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net position increased by \$44,000. Of this increase, business-type activities (enterprise fund) had an increase of \$122,457 mainly due to an increase in charges for services. Governmental activities had a decrease of \$78,457 mainly due to an increase in public safety expenses related to pension activity.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$4,540,618, an increase of \$9,786 in comparison with the prior year. Approximately 57.3 percent of the total fund balance is available for spending at the City's discretion, \$1,111,137 as unassigned, \$906,081 assigned for specific purposes, \$584,503 committed for specific purposes and \$1,938,897 restricted for specific purposes.
- At the end of the current fiscal year, unassigned fund balance for the General fund was \$1,134,408, or 82.9 percent of total General fund expenditures.
- The City's total debt increased by \$160,000, or 1.6 percent during the current fiscal year. This change relates to the retirement of \$945,000 existing debt and new debt issuances of \$1,105,000.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplemental information in addition to the basic financial statements themselves.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of combining and individual fund financial statements and schedules that further explains and supports the information in the financial statements. Figure 1 shows how the required parts of this annual report are arranged and relate to one another. In addition to these required elements, we have included a section with combining and individual fund financial statements and schedules that provide details about nonmajor governmental funds, which are added together and presented in single columns in the basic financial statements.

**Figure 1
Required Components of the
City's Annual Financial Report**

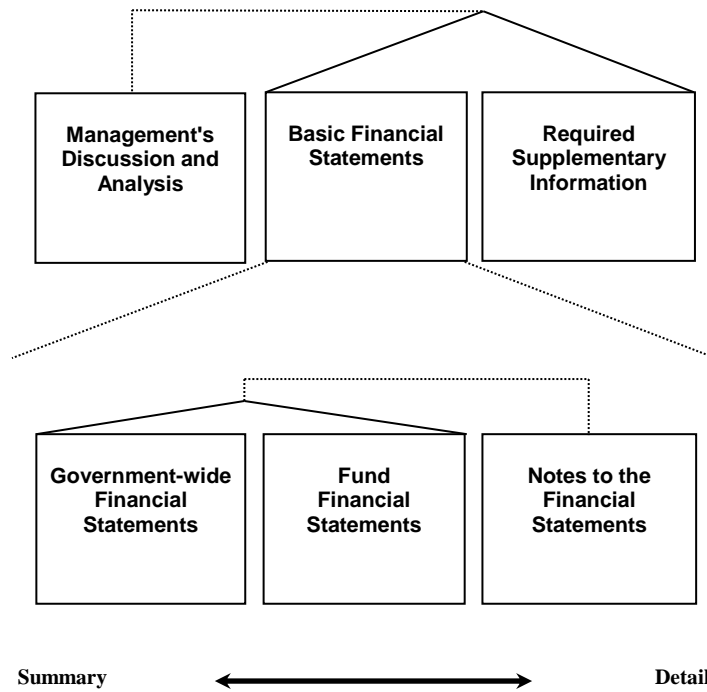


Figure 2 summarizes the major features of the City’s financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis explains the structure and contents of each of the statements.

Figure 2
Major Features of the Government-wide and Fund Financial Statements

	Fund Financial Statements		
	Government-wide Statements	Governmental Funds	Proprietary Funds
Scope	Entire City government (except fiduciary funds) and the City’s component units	The activities of the City that are not proprietary or fiduciary, such as police, fire and parks	Activities the City operates similar to private businesses, such as the water and sewer system
Required financial statements	<ul style="list-style-type: none"> • Statement of Net Position • Statement of Activities 	<ul style="list-style-type: none"> • Balance Sheet • Statement of Revenues, Expenditures, and Changes in Fund Balances 	<ul style="list-style-type: none"> • Statement of Net Position • Statement of Revenues, Expenses and Changes in Net Position • Statement of Cash Flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of deferred outflows/inflows of resources information	All deferred outflows/inflows of resources, regardless of when cash is received or paid.	Only deferred outflows of resources expected to be used up and deferred inflows of resources that come due during the year or soon thereafter; no capital assets included	All deferred outflows/inflows of resources, regardless of when cash is received or paid
Type of in flow/out flow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

Government-wide Financial Statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City’s finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the City’s assets and deferred outflows of resources, and liabilities and deferred inflows of resources, with the difference reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the City’s net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenue (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, streets and highways, culture and recreation, health and welfare, housing and economic development, and miscellaneous. The business-type activities of the City include water utility, sewer utility, electric utility and storm water drainage.

The government-wide financial statements can be found starting on page 31 of this report.

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact by the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains 24 individual governmental funds, 7 of which are Debt Service funds, which are reported as one fund for financial reporting. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General, Ambulance, Medical Center, Debt Service and Capital Equipment funds, all of which are considered to be major funds. Data from the other 13 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements or schedules* elsewhere in this report.

The City adopts an annual appropriated budget for its General, Ambulance and Medical Center funds. A budgetary comparison statement has been provided for these funds to demonstrate compliance with these budgets.

The basic governmental fund financial statements can be found starting on page 36 of this report.

Proprietary Funds. The City maintains one type of proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its electric utility, water utility, sewer utility and storm water drainage.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for each of the enterprise funds which are considered to be major funds of the City.

The basic proprietary fund financial statements can be found starting on page 46 of this report.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found starting on page 49 of this report.

Supplementary Information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City of Arlington's share of net pension liabilities (assets) for defined benefits plans, schedules of contributions, and progress in funding its obligation to provide pension. Required supplementary information can be found starting on page 82 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented following the notes to financial statements. Combining and individual fund statements and schedules can be found starting on page 92 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$20,395,478 at the close of the most recent fiscal year.

By far, the largest portion of the City's net position reflects its investment in capital assets (e.g., land, buildings, machinery and equipment); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Arlington's Net Position

	Governmental Activities			Business-type Activities		
	2022	Restated 2021	Increase (Decrease)	2022	2021	Increase (Decrease)
Assets						
Current and other assets	\$ 8,708,909	\$ 6,869,885	\$ 1,839,024	\$ 3,750,205	\$ 3,239,630	\$ 510,575
Capital assets	8,008,974	8,434,307	(425,333)	14,942,607	14,237,687	704,920
Total Assets	16,717,883	15,304,192	1,413,691	18,692,812	17,477,317	1,215,495
Deferred outflows of resources	719,830	564,800	155,030	26,412	41,298	(14,886)
Liabilities						
Long-term liabilities outstanding	5,178,610	4,948,378	230,232	6,289,007	5,636,766	652,241
Other liabilities	408,451	263,677	144,774	387,818	236,634	151,184
Total Liabilities	5,587,061	5,212,055	375,006	6,676,825	5,873,400	803,425
Deferred inflows of resources	3,178,332	696,160	2,482,172	319,241	44,514	274,727
Net Position						
Net investment in capital assets	3,863,673	3,806,404	57,269	8,735,187	8,795,636	(60,449)
Restricted	3,129,868	3,950,151	(820,283)	-	-	-
Unrestricted	1,678,779	2,204,222	(525,443)	2,987,971	2,805,065	182,906
Total Net Position	\$ 8,672,320	\$ 9,960,777	\$ (1,288,457)	\$ 11,723,158	\$ 11,600,701	\$ 122,457

An additional portion of the City's net position represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position may be used to meet the City's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net position, both for the City as a whole, as well as for its separate governmental and business-type activities.

The City's net position increased by \$44,000 during the current fiscal year. This was largely due to business-type charges for services increasing during the year. There was a prior period restatement for the change for implementation of GASB 87 for lease receivable for the Municipal Hospital.

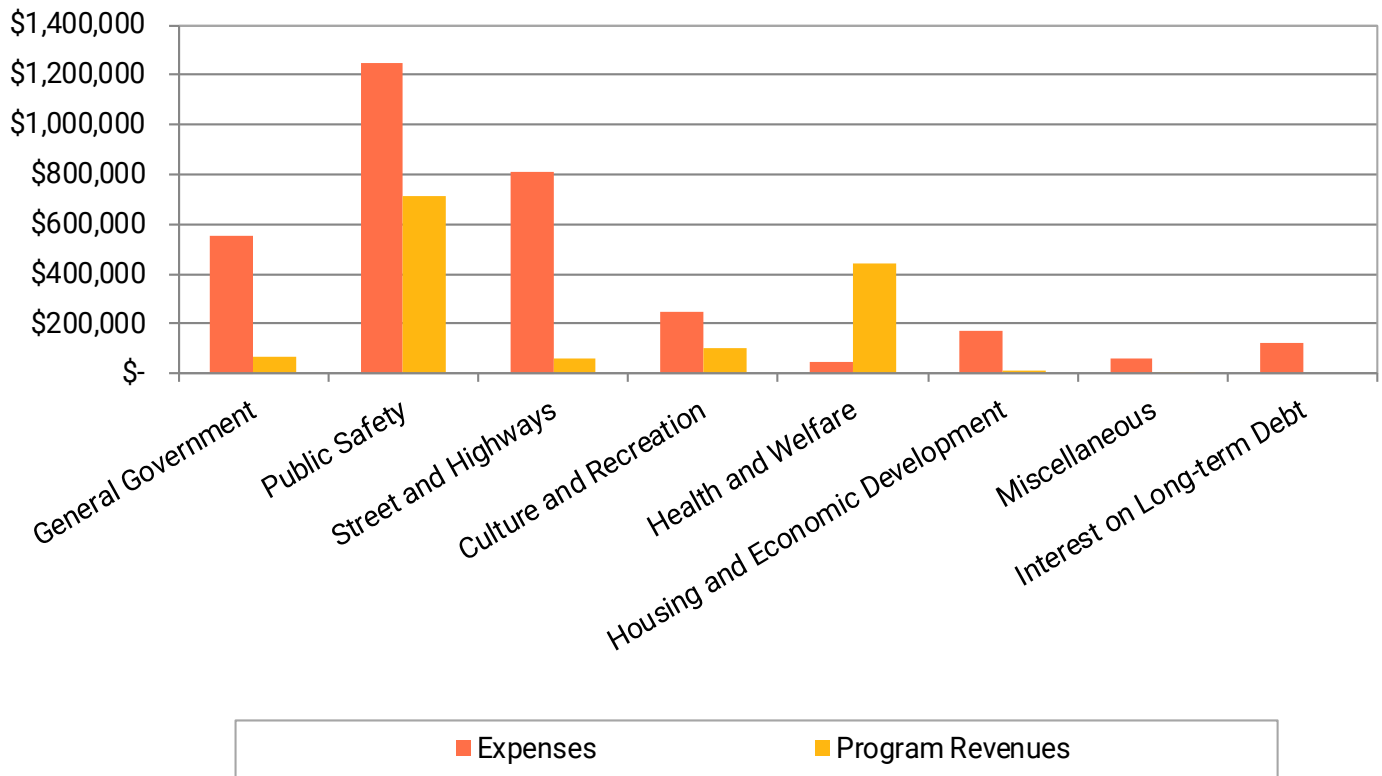
Governmental Activities. Governmental activities decreased the City's net position. Key elements of this decrease are as follows:

City of Arlington's Changes in Net Position

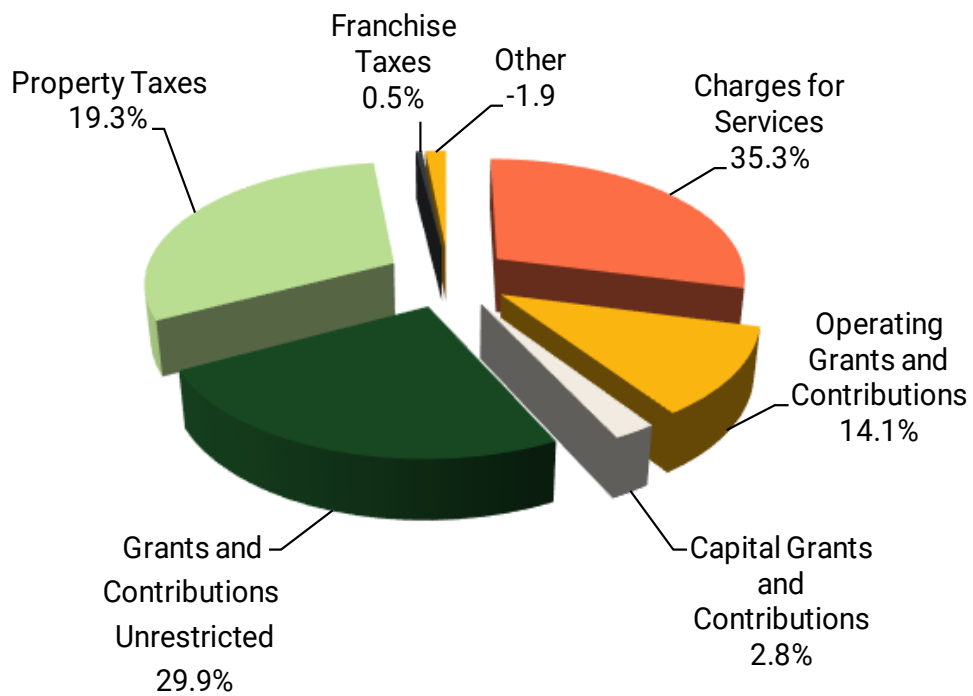
	Governmental Activities			Business-type Activities		
	2022	2021	Increase (Decrease)	2022	2021	Increase (Decrease)
Revenues						
Program Revenues						
Charges for services	\$ 952,826	\$ 1,017,717	\$ (64,891)	\$ 3,813,966	\$ 3,537,544	\$ 276,422
Operating grants and contributions	379,211	182,081	197,130	-	120	(120)
Capital grants and contributions	75,835	258,923	(183,088)	-	-	-
General Revenues						
Property taxes	1,004,002	968,899	35,103	-	-	-
Other taxes	14,936	14,031	905	-	-	-
Grants and contributions not restricted to specific programs	803,078	796,338	6,740	-	-	-
Unrestricted investment earnings (loss)	(51,354)	(4,600)	(46,754)	(46,373)	(4,020)	(42,353)
Total Revenues	3,178,534	3,233,389	(54,855)	3,767,593	3,533,644	233,949
Expenses						
General government	550,592	542,296	8,296	-	-	-
Public safety	1,245,626	1,120,800	124,826	-	-	-
Streets and highways	812,482	788,339	24,143	-	-	-
Culture and recreation	247,678	247,409	269	-	-	-
Health and welfare	47,854	73,938	(26,084)	-	-	-
Economic development	170,968	107,752	63,216	-	-	-
Miscellaneous	57,486	43,317	14,169	-	-	-
Interest on long-term debt	124,305	136,063	(11,758)	-	-	-
Electric utility	-	-	-	2,571,855	2,250,569	321,286
Water utility	-	-	-	429,965	357,097	72,868
Sewer utility	-	-	-	546,635	541,725	4,910
Storm water drainage	-	-	-	96,681	103,112	(6,431)
Total Expenses	3,256,991	3,059,914	197,077	3,645,136	3,252,503	392,633
Change in Net Position	(78,457)	173,475	(251,932)	122,457	281,141	(158,684)
Net Position - January 1	9,960,777	9,787,302	173,475	11,600,701	11,319,560	281,141
Prior Period Restatement (Note 7)	(1,210,000)	-	(1,210,000)	-	-	-
Net Position - January 1 as Restated	8,750,777	9,787,302	(1,036,525)	11,600,701	11,319,560	281,141
Net Position - December 31	\$ 8,672,320	\$ 9,960,777	\$ (1,288,457)	\$ 11,723,158	\$ 11,600,701	\$ 122,457

The following graph depicts various governmental activities and shows the revenue and expenses directly related to those activities.

Expenses and Program Revenues - Governmental Activities

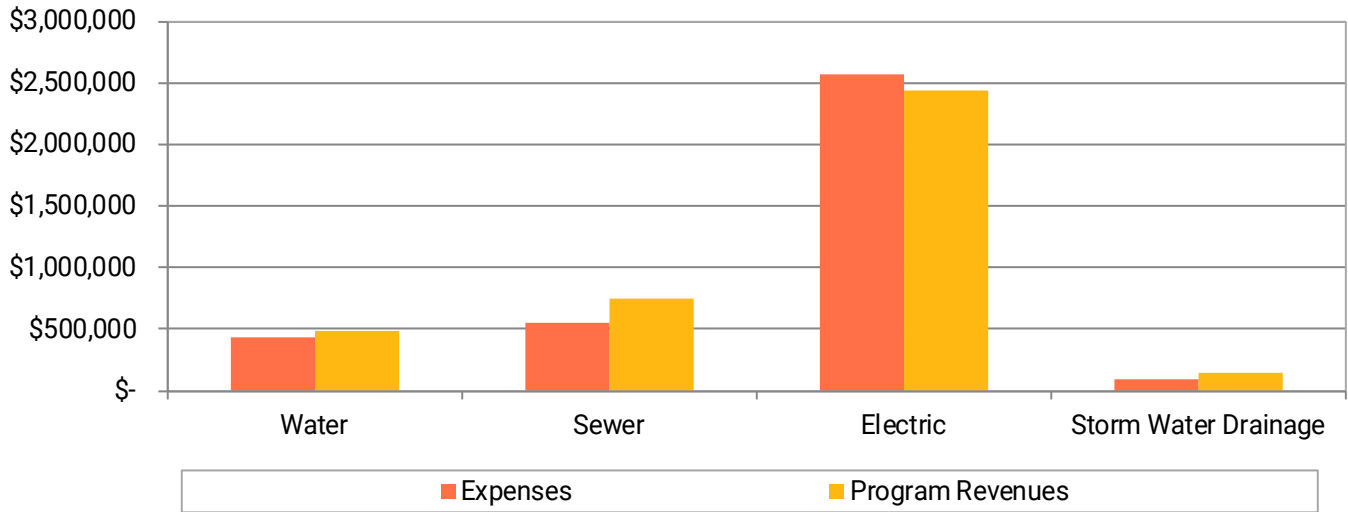


Revenues by Source - Governmental Activities

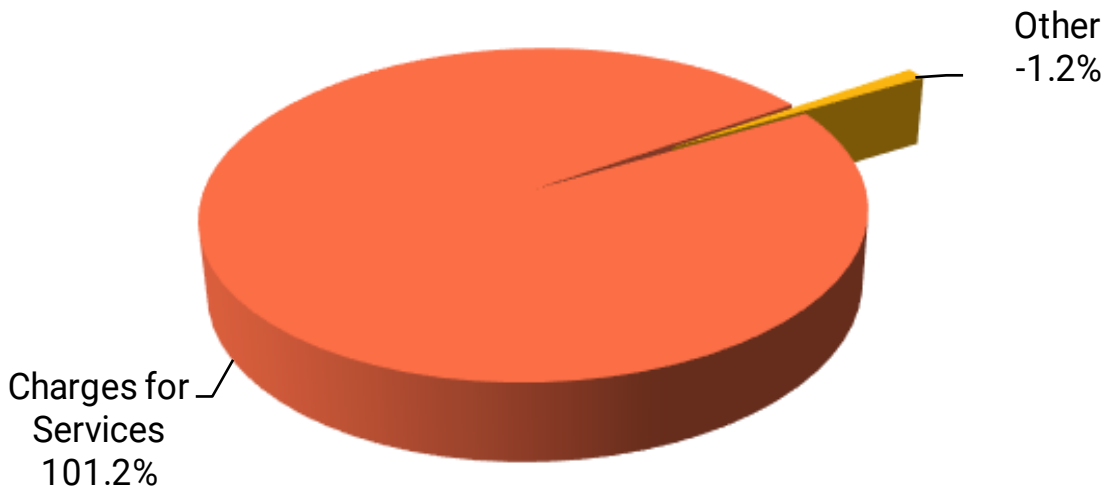


Business-type Activities. Business-type activities increased the City’s net position as shown in the changes in net position table. The key element of this increase was stable expenditures and charges for services in excess of expenditures.

Expenses and Program Revenues - Business-type Activities



Revenue by Source Business-type Activities



Financial Analysis of the City's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. The table below outlines the governmental fund balances for the year ending December 31, 2022.

	202		210	Debt Service	401	Other Governmental Funds	Total	Prior Year Total (Restated)	Increase/ (Decrease)
	General	Ambulance	Medical Center		Capital Equipment		Governmental Funds		
Fund Balances									
Restricted									
Future loans	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 493,271	\$ 493,271	\$ 585,048	\$ (91,777)
Current loans	-	-	-	-	-	275,992	275,992	281,128	(5,136)
Cemetery operations	-	-	-	-	-	115,722	115,722	115,058	664
Debt service	-	-	-	1,015,200	-	-	1,015,200	1,030,751	(15,551)
Park dedication	-	-	-	-	-	38,712	38,712	39,280	(568)
Committed									
Economic development	-	-	-	-	-	4,432	4,432	4,496	(64)
Cemetery operations	-	-	-	-	-	14,851	14,851	15,086	(235)
Ambulance operations	-	565,220	-	-	-	-	565,220	597,802	(32,582)
Assigned									
Fire department operations	-	-	-	-	-	226,084	226,084	202,061	24,023
Community center operations	-	-	-	-	-	27,844	27,844	12,999	14,845
Medical center	-	-	120,114	-	-	-	120,114	89,484	30,630
Capital projects	-	-	-	-	530,358	1,681	532,039	375,093	156,946
Unassigned	1,134,408	-	-	-	-	(23,271)	1,111,137	1,182,546	(71,409)
Total Fund Balances	\$ 1,134,408	\$ 565,220	\$ 120,114	\$ 1,015,200	\$ 530,358	\$ 1,175,318	\$ 4,540,618	\$ 4,530,832	\$ 9,786

As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances as shown above. Additional information on the City's fund balances can be found in Note 1 of this report.

The General fund is the chief operating fund of the City. At the end of the current year, the fund balance of the General fund is shown in the table above. As a measure of the General fund's liquidity, it may be useful to compare total fund balance to total fund expenditures. The total unassigned fund balance as a percent of total fund expenditures is shown in the chart below along with total fund balance as a percent of total expenditures.

	Current Year Ending Balance	Prior Year Ending Balance	Increase/ (Decrease)
General Fund Fund Balances			
Unassigned	<u>\$ 1,134,408</u>	<u>\$ 1,217,640</u>	<u>\$ (83,232)</u>
General Fund Expenditures	\$ 1,313,981.00	\$ 1,311,876.00	
Unassigned as a Percent of Expenditures	86.3%	92.8%	

The fund balance of the City's General fund decreased during the current fiscal year as shown in the table above. The decrease in fund balance was mainly due to unbudgeted capital expenditures.

Other major governmental fund analysis is shown below.

	December 31, 2022	Restated December 31, 2021	Increase (Decrease)
Ambulance <i>The Ambulance fund decrease was largely due to an increase in payroll expenditures due to staffing.</i>	\$ 565,220	\$ 597,802	\$ (32,582)
Medical Center <i>The Medical Center fund increase was largely due to a decrease in real estate tax expenditures.</i>	120,114	89,484	30,630
Debt Service <i>The Debt Service fund decrease was largely due to the final payment on the 2015 ambulance certificates.</i>	1,015,200	1,030,751	(15,551)
Capital Equipment <i>The Capital Equipment fund increase was largely due to a dedicated tax levy to the fund during the year.</i>	530,358	374,740	155,618

Proprietary Funds. The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Net position of the City's proprietary funds increased or (decreased) as follows.

	December 31, 2022	December 31, 2021	Increase (Decrease)
Water Utility <i>The Water Utility fund increase was primarily due to an increase in sales net of increased expenses.</i>	\$ 3,430,316	\$ 3,396,494	\$ 33,822
Sewer Utility <i>The Sewer Utility fund increase was primarily due to an increase in sales.</i>	5,542,424	5,350,252	192,172
Electric Utility <i>The Electric Utility fund decrease was primarily due to an increase in electric energy purchase costs.</i>	2,338,251	2,487,323	(149,072)
Storm Water <i>The Storm Water fund increase was primarily due to an increase in sales.</i>	412,167	366,632	45,535

General Fund Budgetary Highlights

The City's General fund budget was not amended during the year. Revenues were under budget by \$29,133 and actual expenditures were \$54,099 over budget for the year.

The revenues being under budget is largely due to investment market value losses and a decrease in building permit revenue. Expenditure overages largely came from streets maintenance & snow removal costs, as well as miscellaneous expenditures more than budget due to the subsidy of residential WAC/SAC waivers.

Capital Asset and Debt Administration

Capital Assets. The City's investment in capital assets for its governmental and business-type activities as of December 31, 2022, is shown below in capital asset table (net of accumulated depreciation). This investment in capital assets includes land, structures, improvements, machinery and equipment, park facilities, roads, highways and bridges.

Major capital asset events during the current fiscal year included the following:

- Construction in progress on the water treatment plant rehabilitation project totaled \$1,358,398.
- Ambulance Lifepaks for \$60,266.
- Wastewater treatment blower for \$45,104.

Additional information on the City of Arlington's capital assets can be found in Note 3C starting on page 62 of this report.

City of Arlington's Capital Assets (Net of Depreciation)

	Governmental Activities			Business-type Activities		
	2022	2021	Increase (Decrease)	2022	2021	Increase (Decrease)
Land	\$ 328,700	\$ 328,700	\$ -	\$ 27,500	\$ 27,500	\$ -
Buildings and Improvements Infrastructure and Other Improvements	2,142,102	2,254,818	(112,716)	13,279,972	13,761,194	(481,222)
Machinery and Equipment	4,249,620	4,492,638	(243,018)	-	-	-
Motor Vehicles	667,522	623,846	43,676	276,737	268,836	7,901
Construction in Progress	621,030	734,305	(113,275)	-	-	-
	-	-	-	1,358,398	180,157	1,178,241
Total	\$ 8,008,974	\$ 8,434,307	\$ (425,333)	\$ 14,942,607	\$ 14,237,687	\$ 704,920

Long-term Debt. At the end of the current fiscal year, the City had total bonded debt outstanding consisting of general obligation debt, special assessment debt and revenue debt as noted in the table below. While all of the City's bonds have revenue streams, they are all backed by the full faith and credit of the City.

City of Arlington's Outstanding Debt

	Governmental Activities			Business-type Activities		
	2022	2021	Increase (Decrease)	2022	2021	Increase (Decrease)
General Obligation Equipment Certificates	\$ 215,000	\$ 263,000	\$ (48,000)	\$ -	\$ -	\$ -
General Obligation Special Assessment Bonds	2,906,368	3,112,933	(206,565)	2,583,632	2,762,067	(178,435)
General Obligation Revenue Bonds	985,000	1,210,000	(225,000)	3,115,000	2,222,000	893,000
Revenue Bonds	-	-	-	478,000	553,000	(75,000)
Total	\$ 4,106,368	\$ 4,585,933	\$ (479,565)	\$ 6,176,632	\$ 5,537,067	\$ 639,565

The City's total debt increased by \$160,000, or 1.6 percent during the current fiscal year. This change relates to the retirement of \$945,000 existing debt and new debt issuances of \$1,105,000.

Minnesota statutes limit the amount of net general obligation debt a City may issue to 3 percent of the market value of taxable property within the City. Net debt is debt payable solely from ad valorem taxes.

Additional information on the City of Arlington's long-term debt can be found in Note 3E starting on page 64 of this report.

Economic Factors and Next Year's Budgets and Rates

- The unemployment rate for Sibley County is currently 3.8 percent, which has increased from the prior year's rate of 3.6. This compares unfavorably to the State's average unemployment rate of 2.7 percent and unfavorably to the national average rate of 3.4 percent.
- Property valuations within the City remain strong and growing.
- Inflationary trends in the region compare favorably to national indices.

All of these factors were considered in preparing the City's budget for the 2023 fiscal year.

During the current fiscal year, unassigned fund balance in the General fund decreased to \$1,134,408. . It is intended that this use of available fund balance will avoid the need to excessively raise taxes or charges during the 2023 fiscal year.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Administrator, City of Arlington, 204 Shamrock Drive, Arlington, Minnesota 55307-9551.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF ARLINGTON
ARLINGTON, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2022

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City of Arlington, Minnesota
Statement of Net Position
December 31, 2022

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and temporary investments	\$ 3,878,172	\$ 2,640,337	\$ 6,518,509
Receivables			
Interest	4,361	3,882	8,243
Delinquent taxes	17,536	-	17,536
Accounts, net of allowance for uncollectibles	408,892	617,749	1,026,641
Notes, net of allowance for uncollectibles	275,992	-	275,992
Special assessments	524,637	17,730	542,367
Lease	2,916,272	325,506	3,241,778
Due from other governments	2,884	-	2,884
Inventories	-	145,001	145,001
Assets held for resale	323,660	-	323,660
Net pension asset	356,503	-	356,503
Capital assets			
Nondepreciable	328,700	1,385,898	1,714,598
Depreciable, net of accumulated depreciation	7,680,274	13,556,709	21,236,983
Total Assets	<u>16,717,883</u>	<u>18,692,812</u>	<u>35,410,695</u>
Deferred Outflows of Resources			
Deferred pension resources	<u>719,830</u>	<u>26,412</u>	<u>746,242</u>
Liabilities			
Accounts payable	109,137	323,697	432,834
Due to other governments	7,831	-	7,831
Accrued interest payable	36,172	62,522	98,694
Accrued salaries payable	20,791	1,599	22,390
Unearned revenue	234,520	-	234,520
Noncurrent liabilities			
Due within one year			
Long-term liabilities	484,182	529,727	1,013,909
Due in more than one year			
Long-term liabilities	3,673,870	5,692,974	9,366,844
Net pension liability	1,020,558	66,306	1,086,864
Total Liabilities	<u>5,587,061</u>	<u>6,676,825</u>	<u>12,263,886</u>
Deferred Inflows of Resources			
Deferred pension resources	280,996	741	281,737
Deferred lease revenue	2,897,336	318,500	3,215,836
Total Deferred Inflows of Resources	<u>3,178,332</u>	<u>319,241</u>	<u>3,497,573</u>
Net Position			
Net investment in capital assets	3,863,673	8,735,187	12,598,860
Restricted			
Pensions	231,972	-	231,972
Debt service	1,974,199	-	1,974,199
Loans	769,263	-	769,263
Cemetery operations	115,722	-	115,722
Park dedication	38,712	-	38,712
Unrestricted	<u>1,678,779</u>	<u>2,987,971</u>	<u>4,666,750</u>
Total Net Position	<u>\$ 8,672,320</u>	<u>\$ 11,723,158</u>	<u>\$ 20,395,478</u>

The notes to the financial statements are an integral part of this statement.

City of Arlington, Minnesota
Statement of Activities
For the Year Ended December 31, 2022

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities				
General government	\$ 550,592	\$ 67,615	\$ 2,069	\$ -
Public safety	1,245,626	624,589	64,187	26,710
Streets and highways	812,482	9,855	-	49,125
Culture and recreation	247,678	101,059	-	-
Health and welfare	47,854	129,344	312,955	-
Housing and economic development	170,968	14,599	-	-
Miscellaneous	57,486	5,765	-	-
Interest on long-term debt	124,305	-	-	-
Total Governmental Activities	<u>3,256,991</u>	<u>952,826</u>	<u>379,211</u>	<u>75,835</u>
Business-type Activities				
Water utility	429,965	488,034	-	-
Sewer utility	546,635	749,461	-	-
Electric utility	2,571,855	2,431,518	-	-
Storm Water Drainage	96,681	144,953	-	-
Total Business-type Activities	<u>3,645,136</u>	<u>3,813,966</u>	<u>-</u>	<u>-</u>
Total Primary Government	<u>\$ 6,902,127</u>	<u>\$ 4,766,792</u>	<u>\$ 379,211</u>	<u>\$ 75,835</u>

General Revenues

- Property taxes, levied for general purposes
- Property taxes, levied for other purposes
- Property taxes, levied for debt service
- Franchise taxes
- Grants and contributions not restricted to specific programs
- Unrestricted investment earnings (loss)
- Total General Revenues

Change in Net Position

Net Position, January 1

Prior Period Restatement (Note 7)

Net Position, January 1 as Restated

Net Position, December 31

The notes to the financial statements are an integral part of this statement.

Net (Expense) Revenue and
Changes in Net Position

Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (480,908)		\$ (480,908)
(530,140)		(530,140)
(753,502)		(753,502)
(146,619)		(146,619)
394,445		394,445
(156,369)		(156,369)
(51,721)		(51,721)
(124,305)		(124,305)
<u>(1,849,119)</u>		<u>(1,849,119)</u>
-	58,069	58,069
-	202,826	202,826
-	(140,337)	(140,337)
-	48,272	48,272
-	<u>168,830</u>	<u>168,830</u>
<u>(1,849,119)</u>	<u>168,830</u>	<u>(1,680,289)</u>
286,822	-	286,822
484,837	-	484,837
232,343	-	232,343
14,936	-	14,936
803,078	-	803,078
<u>(51,354)</u>	<u>(46,373)</u>	<u>(97,727)</u>
<u>1,770,662</u>	<u>(46,373)</u>	<u>1,724,289</u>
<u>(78,457)</u>	<u>122,457</u>	<u>44,000</u>
9,960,777	11,600,701	21,561,478
<u>(1,210,000)</u>	<u>-</u>	<u>(1,210,000)</u>
<u>8,750,777</u>	<u>11,600,701</u>	<u>20,351,478</u>
<u>\$ 8,672,320</u>	<u>\$ 11,723,158</u>	<u>\$ 20,395,478</u>

The notes to the financial statements are an integral part of this statement.

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FUND FINANCIAL STATEMENTS

CITY OF ARLINGTON
ARLINGTON, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2022

City of Arlington, Minnesota
Balance Sheet
Governmental Funds
December 31, 2022

	202		210	Debt Service
	General	Ambulance	Medical Center	
Assets				
Cash and temporary investments	\$ 1,201,833	\$ 246,853	\$ 105,109	\$ 1,008,790
Receivables				
Interest	1,258	375	155	1,050
Delinquent taxes	9,306	503	-	4,081
Lease	-	-	1,838,547	1,064,459
Accounts, net of allowance for uncollectibles	23,445	334,353	-	-
Notes, net of allowance for uncollectibles	-	-	-	-
Special assessments	6,147	-	-	470,902
Due from other governments	595	122	-	1,306
Due from other funds	11,051	-	-	-
Assets held for resale	-	-	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$ 1,253,635</u>	<u>\$ 582,206</u>	<u>\$ 1,943,811</u>	<u>\$ 2,550,588</u>
Liabilities				
Accounts payable	\$ 83,330	\$ 8,486	\$ -	\$ -
Due to other governments	7,831	-	-	-
Due to other funds	-	-	-	-
Accrued salaries payable	12,613	7,997	-	-
Unearned revenue	-	-	-	-
Total Liabilities	<u>103,774</u>	<u>16,483</u>	<u>-</u>	<u>-</u>
Deferred Inflows of Resources				
Unavailable revenue				
Property taxes	9,306	503	-	4,081
Special assessments	6,147	-	-	470,902
Deferred lease revenue	-	-	1,823,697	1,060,405
Total Deferred Inflows of Resources	<u>15,453</u>	<u>503</u>	<u>1,823,697</u>	<u>1,535,388</u>
Fund Balances				
Restricted				
Future loans	-	-	-	-
Current loans	-	-	-	-
Cemetery operations	-	-	-	-
Debt service	-	-	-	1,015,200
Park dedication	-	-	-	-
Committed				
Economic development	-	-	-	-
Cemetery operations	-	-	-	-
Ambulance operations	-	565,220	-	-
Assigned				
Fire department operations	-	-	-	-
Community center operations	-	-	-	-
Medical center	-	-	120,114	-
Capital projects	-	-	-	-
Unassigned	1,134,408	-	-	-
Total Fund Balances	<u>1,134,408</u>	<u>565,220</u>	<u>120,114</u>	<u>1,015,200</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 1,253,635</u>	<u>\$ 582,206</u>	<u>\$ 1,943,811</u>	<u>\$ 2,550,588</u>

The notes to the financial statements are an integral part of this statement.

401 Capital Equipment	Other Governmental Funds	Total
\$ 506,491	\$ 809,096	\$ 3,878,172
498	1,025	4,361
2,579	1,067	17,536
-	13,266	2,916,272
33,574	17,520	408,892
-	275,992	275,992
-	47,588	524,637
625	236	2,884
-	-	11,051
-	323,660	323,660
<u>\$ 543,767</u>	<u>\$ 1,489,450</u>	<u>\$ 8,363,457</u>
\$ 10,830	\$ 6,491	\$ 109,137
-	-	7,831
-	11,051	11,051
-	181	20,791
-	234,520	234,520
<u>10,830</u>	<u>252,243</u>	<u>383,330</u>
2,579	1,067	17,536
-	47,588	524,637
-	13,234	2,897,336
<u>2,579</u>	<u>61,889</u>	<u>3,439,509</u>
-	493,271	493,271
-	275,992	275,992
-	115,722	115,722
-	-	1,015,200
-	38,712	38,712
-	4,432	4,432
-	14,851	14,851
-	-	565,220
-	226,084	226,084
-	27,844	27,844
-	-	120,114
530,358	1,681	532,039
-	(23,271)	1,111,137
<u>530,358</u>	<u>1,175,318</u>	<u>4,540,618</u>
<u>\$ 543,767</u>	<u>\$ 1,489,450</u>	<u>\$ 8,363,457</u>

The notes to the financial statements are an integral part of this statement.

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City of Arlington, Minnesota
 Reconciliation of the Balance Sheet
 to the Statement of Net Position
 Governmental Funds
 December 31, 2022

	<u>Primary Government</u>
Amounts reported for governmental activities in the statement of net position are different because	
Total Fund Balances - Governmental Funds	\$ 4,540,618
Net capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the funds.	8,008,974
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds.	
Long-term liabilities at year-end consist of	
Bonds payable	(4,106,368)
Compensated absences payable	(12,751)
Net pension liability	(1,020,558)
Net pension asset	356,503
Premium on bonds issues, net of accumulated amortization	(38,933)
Long-term assets are not available to pay current-period expenditures and, therefore, are delayed in the funds.	
Delinquent property taxes receivable	17,536
Special assessments receivable	524,637
Governmental funds do not report long-term amounts related to pensions.	
Deferred outflows of resources	719,830
Deferred inflows of resources	(280,996)
Governmental funds do not report a liability for accrued interest until due and payable.	<u>(36,172)</u>
Total Net Position - Governmental Activities	<u><u>\$ 8,672,320</u></u>

The notes to the financial statements are an integral part of this statement.

City of Arlington, Minnesota
Statement of Revenues, Expenditures
and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2022

	202		210	Debt
	General	Ambulance	Medical Center	Service
Revenues				
Taxes	\$ 304,560	60,138	\$ -	\$ 220,199
Special assessments	-	-	-	95,357
Licenses and permits	47,663	-	-	-
Intergovernmental	858,635	-	-	-
Charges for services	23,059	521,876	134,697	-
Fines and forfeits	8,106	-	-	-
Investment earnings (loss)	(14,545)	(4,371)	(1,672)	(12,241)
Miscellaneous	30,870	6,103	32,410	275,192
Total Revenues	<u>1,258,348</u>	<u>583,746</u>	<u>165,435</u>	<u>578,507</u>
Expenditures				
Current				
General government	426,710	-	-	-
Public safety	357,231	614,068	-	-
Streets and highways	343,306	-	-	-
Health and welfare	-	-	47,854	-
Culture and recreation	112,765	-	-	-
Housing and economic development	38,511	-	-	-
Miscellaneous	43,574	-	-	-
Capital outlay				
General government	-	-	-	-
Public safety	-	2,260	-	-
Streets and highways	9,158	-	-	-
Culture and recreation	36,825	-	-	-
Housing and economic development	-	-	-	-
Debt service				
Principal	-	-	-	469,565
Interest and other charges	-	-	-	130,042
Total Expenditures	<u>1,368,080</u>	<u>616,328</u>	<u>47,854</u>	<u>599,607</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(109,732)</u>	<u>(32,582)</u>	<u>117,581</u>	<u>(21,100)</u>
Other Financing Sources (Uses)				
Transfers in	26,500	-	-	5,549
Transfers out	-	-	(86,951)	-
Total Other Financing Sources (Uses)	<u>26,500</u>	<u>-</u>	<u>(86,951)</u>	<u>5,549</u>
Net Change in Fund Balances	<u>(83,232)</u>	<u>(32,582)</u>	<u>30,630</u>	<u>(15,551)</u>
Fund Balances, January 1	1,217,640	597,802	89,484	2,240,751
Prior Period Restatement (Note 7)	-	-	-	(1,210,000)
Fund Balances, January 1 as Restated	<u>1,217,640</u>	<u>597,802</u>	<u>89,484</u>	<u>1,030,751</u>
Fund Balances, December 31	<u>\$ 1,134,408</u>	<u>\$ 565,220</u>	<u>\$ 120,114</u>	<u>\$ 1,015,200</u>

The notes to the financial statements are an integral part of this statement.

401 Capital Equipment	Other Governmental Funds	Total
308,379	\$ 124,145	\$ 1,017,421
26,710	25,935	148,002
-	-	47,663
14,000	6,110	878,745
-	135,141	814,773
-	-	8,106
(6,217)	(12,308)	(51,354)
42,254	9,710	396,539
<u>385,126</u>	<u>288,733</u>	<u>3,259,895</u>
-	-	426,710
-	123,123	1,094,422
-	-	343,306
-	-	47,854
-	67,878	180,643
-	118,875	157,386
-	15,212	58,786
5,400	-	5,400
71,264	1,794	75,318
161,908	-	171,066
34,838	1,459	73,122
-	6,489	6,489
10,000	-	479,565
-	-	130,042
<u>283,410</u>	<u>334,830</u>	<u>3,250,109</u>
<u>101,716</u>	<u>(46,097)</u>	<u>9,786</u>
53,902	1,000	86,951
-	-	(86,951)
<u>53,902</u>	<u>1,000</u>	<u>-</u>
<u>155,618</u>	<u>(45,097)</u>	<u>9,786</u>
374,740	1,220,415	5,740,832
-	-	(1,210,000)
<u>374,740</u>	<u>1,220,415</u>	<u>4,530,832</u>
<u>\$ 530,358</u>	<u>\$ 1,175,318</u>	<u>\$ 4,540,618</u>

The notes to the financial statements are an integral part of this statement.

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City of Arlington, Minnesota
 Reconciliation of the Statement of Revenues, Expenditures and
 Changes in Fund Balances to the Statement of Activities
 Governmental Funds
 For the Year Ended December 31, 2022

	<u>Primary Government</u>
Amounts reported for governmental activities in the statement of activities are different because	
Net change in fund balances - governmental funds	\$ 9,786
Governmental funds report capital outlay as expenditures. However, in the statement of activities the cost of those assets is allocated over the estimated useful lives and reported as depreciation expense.	
Depreciation	(556,075)
Capital outlay	130,742
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.	
Principal repayments	479,565
Bond premiums received net of amortization	3,037
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.	2,700
Long-term pension activity is not reported in governmental funds.	
Pension expense	(68,089)
Direct aid contributions	7,867
Delinquent property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are unavailable in the funds.	1,517
Certain revenues are recognized as soon as they are earned. Under the modified accrual basis of accounting certain revenues cannot be recognized until they are available to liquidate liabilities of the current period.	
Special assessments	(89,445)
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.	
Compensated absences	<u>(62)</u>
Change in Net Position - Governmental Activities	<u><u>\$ (78,457)</u></u>

The notes to the financial statements are an integral part of this statement.

City of Arlington, Minnesota
Statement of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual
General and Ambulance Funds
For the Year Ended December 31, 2022

	General			
	Budgeted Amounts		Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 298,053	\$ 298,053	\$ 304,560	\$ 6,507
Special assessments	10,000	10,000	-	(10,000)
Licenses and permits	72,900	72,900	47,663	(25,237)
Intergovernmental	859,560	859,560	858,635	(925)
Charges for services	16,770	16,770	23,059	6,289
Fines and forfeits	10,198	10,198	8,106	(2,092)
Investment earnings (loss)	9,500	9,500	(14,545)	(24,045)
Miscellaneous	10,500	10,500	30,870	20,370
Total Revenues	<u>1,287,481</u>	<u>1,287,481</u>	<u>1,258,348</u>	<u>(29,133)</u>
Expenditures				
Current				
General government	440,791	440,791	426,710	14,081
Public safety	412,592	412,592	357,231	55,361
Streets and highways	314,735	314,735	343,306	(28,571)
Culture and recreation	106,828	106,828	112,765	(5,937)
Health and welfare	-	-	-	-
Housing and economic development	30,635	30,635	38,511	(7,876)
Miscellaneous	-	-	43,574	(43,574)
Capital outlay				
Public safety	-	-	-	-
Streets and highways	3,000	3,000	9,158	(6,158)
Culture and recreation	5,400	5,400	36,825	(31,425)
Total Expenditures	<u>1,313,981</u>	<u>1,313,981</u>	<u>1,368,080</u>	<u>(54,099)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(26,500)</u>	<u>(26,500)</u>	<u>(109,732)</u>	<u>(83,232)</u>
Other Financing Sources (Uses)				
Transfers in	26,500	26,500	26,500	-
Transfers out	-	-	-	-
Total Other Financing Sources (Uses)	<u>26,500</u>	<u>26,500</u>	<u>26,500</u>	<u>-</u>
Net Change in Fund Balances	-	-	(83,232)	(83,232)
Fund Balances, January 1	<u>1,217,640</u>	<u>1,217,640</u>	<u>1,217,640</u>	<u>-</u>
Fund Balances, December 31	<u>\$ 1,217,640</u>	<u>\$ 1,217,640</u>	<u>\$ 1,134,408</u>	<u>\$ (83,232)</u>

The notes to the financial statements are an integral part of this statement.

Ambulance				Medical Center			
Budgeted Amounts		Amounts	Variance with Final Budget	Budgeted Amounts		Amounts	Variance with Final Budget
Original	Final			Original	Final		
\$ 60,000	\$ 60,000	\$ 60,138	\$ 138	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
25,000	25,000	-	(25,000)	-	-	-	-
409,812	409,812	521,876	112,064	189,839	189,839	134,697	(55,142)
-	-	-	-	-	-	-	-
1,500	1,500	(4,371)	(5,871)	1,200	1,200	(1,672)	(2,872)
5,100	5,100	6,103	1,003	-	-	32,410	32,410
<u>501,412</u>	<u>501,412</u>	<u>583,746</u>	<u>82,334</u>	<u>191,039</u>	<u>191,039</u>	<u>165,435</u>	<u>(25,604)</u>
-	-	-	-	-	-	-	-
511,822	511,822	614,068	(102,246)	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	85,436	85,436	47,854	37,582
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	2,260	(2,260)	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>511,822</u>	<u>511,822</u>	<u>616,328</u>	<u>(104,506)</u>	<u>85,436</u>	<u>85,436</u>	<u>47,854</u>	<u>37,582</u>
(10,410)	(10,410)	(32,582)	(22,172)	105,603	105,603	117,581	11,978
-	-	-	-	-	-	-	-
-	-	-	-	(84,402)	(84,402)	(86,951)	(2,549)
-	-	-	-	(84,402)	(84,402)	(86,951)	(2,549)
(10,410)	(10,410)	(32,582)	(22,172)	21,201	21,201	30,630	9,429
597,802	597,802	597,802	-	89,484	89,484	89,484	-
<u>\$ 587,392</u>	<u>\$ 587,392</u>	<u>\$ 565,220</u>	<u>\$ (22,172)</u>	<u>\$ 110,685</u>	<u>\$ 110,685</u>	<u>\$ 120,114</u>	<u>\$ 9,429</u>

The notes to the financial statements are an integral part of this statement.

City of Arlington, Minnesota
Statement of Net Position
Proprietary Funds
For the Year Ended December 31, 2022

	Business-type Activities - Enterprise Funds				Total
	601 Water Utility	602 Sewer Utility	604 Electric Utility	605 Storm Water	
Assets					
Current Assets					
Cash and temporary investments	\$ 1,064,006	\$ 781,378	\$ 554,507	\$ 240,446	\$ 2,640,337
Receivables					
Interest	1,950	902	796	234	3,882
Accounts, net of allowance for uncollectibles	82,832	131,018	379,683	24,216	617,749
Special assessments	3,002	8,928	1,723	1,954	15,607
Lease	325,506	-	-	-	325,506
Inventories	-	-	145,001	-	145,001
Total Current Assets	<u>1,477,296</u>	<u>922,226</u>	<u>1,081,710</u>	<u>266,850</u>	<u>3,748,082</u>
Noncurrent Assets					
Special assessment receivables	767	1,356	-	-	2,123
Capital assets					
Land	-	-	27,500	-	27,500
Construction in progress	1,358,398	-	-	-	1,358,398
Building and improvements	4,954,498	11,256,030	6,182,719	1,696,533	24,089,780
Machinery and equipment	255,019	126,468	174,327	-	555,814
Total capital assets, at cost	<u>6,567,915</u>	<u>11,382,498</u>	<u>6,384,546</u>	<u>1,696,533</u>	<u>26,031,492</u>
Less accumulated depreciation	<u>(2,262,727)</u>	<u>(4,125,333)</u>	<u>(4,490,412)</u>	<u>(210,413)</u>	<u>(11,088,885)</u>
Total capital assets (net of accumulated depreciation)	<u>4,305,188</u>	<u>7,257,165</u>	<u>1,894,134</u>	<u>1,486,120</u>	<u>14,942,607</u>
Total Noncurrent Assets	<u>4,305,955</u>	<u>7,258,521</u>	<u>1,894,134</u>	<u>1,486,120</u>	<u>14,944,730</u>
Total Assets	<u>5,783,251</u>	<u>8,180,747</u>	<u>2,975,844</u>	<u>1,752,970</u>	<u>18,692,812</u>
Deferred Outflows of Resources					
Deferred pension resources	-	-	26,412	-	26,412
Liabilities					
Current Liabilities					
Accounts payable	151,080	9,189	163,428	-	323,697
Accrued interest payable	27,434	13,945	6,650	14,493	62,522
Accrued salaries payable	-	-	1,599	-	1,599
Compensated absences - current portion	-	-	3,327	-	3,327
Bonds payable - current portion	107,092	287,350	45,000	86,958	526,400
Total Current Liabilities	<u>285,606</u>	<u>310,484</u>	<u>220,004</u>	<u>101,451</u>	<u>917,545</u>
Noncurrent Liabilities					
Compensated absences - long-term portion	-	-	11,954	-	11,954
Bonds payable - long-term portion	1,748,829	2,327,839	365,000	1,239,352	5,681,020
Net pension liability	-	-	66,306	-	66,306
Total Noncurrent Liabilities	<u>1,748,829</u>	<u>2,327,839</u>	<u>443,260</u>	<u>1,239,352</u>	<u>5,759,280</u>
Total Liabilities	<u>2,034,435</u>	<u>2,638,323</u>	<u>663,264</u>	<u>1,340,803</u>	<u>6,676,825</u>
Deferred Inflows of Resources					
Deferred pension resources	-	-	741	-	741
Deferred lease revenue	318,500	-	-	-	318,500
Total Deferred Inflows of Resources	<u>318,500</u>	<u>-</u>	<u>741</u>	<u>-</u>	<u>319,241</u>
Net Position					
Net investment in capital assets	2,449,267	4,641,976	1,484,134	159,810	8,735,187
Unrestricted	981,049	900,448	854,117	252,357	2,987,971
Total Net Position	<u>\$ 3,430,316</u>	<u>\$ 5,542,424</u>	<u>\$ 2,338,251</u>	<u>\$ 412,167</u>	<u>\$ 11,723,158</u>

The notes to the financial statements are an integral part of this statement.

City of Arlington, Minnesota
Statement of Revenues, Expenses
and Changes in Net Position
Proprietary Funds
For the Year Ended December 31, 2022

	Business-type Activities - Enterprise Funds				Total
	601 Water Utility	602 Sewer Utility	604 Electric Utility	605 Storm Water	
Operating Revenues					
Sales	\$ 443,048	\$ 725,565	\$ 2,427,230	\$ 144,933	\$ 3,740,776
Operating Expenses					
Personal services	-	-	85,402	-	85,402
Supplies	213	213	2,194	-	2,620
Other services and charges	200,352	197,808	2,335,366	5,069	2,738,595
Insurance	4,924	15,458	3,559	-	23,941
Utilities	32,860	47,349	230	-	80,439
Depreciation	114,338	249,300	128,461	57,714	549,813
Total Operating Expenses	<u>352,687</u>	<u>510,128</u>	<u>2,555,212</u>	<u>62,783</u>	<u>3,480,810</u>
Operating Income (Loss)	<u>90,361</u>	<u>215,437</u>	<u>(127,982)</u>	<u>82,150</u>	<u>259,966</u>
Nonoperating Revenues (Expenses)					
Investment earnings (loss)	(24,247)	(10,654)	(8,735)	(2,737)	(46,373)
Miscellaneous income	44,986	23,896	4,288	20	73,190
Interest expense	(38,581)	(36,841)	(16,643)	(34,924)	(126,989)
Amortization of bond premiums	351	334	-	1,026	1,711
Bond issuance costs	(39,048)	-	-	-	(39,048)
Total Nonoperating Revenues (Expenses)	<u>(56,539)</u>	<u>(23,265)</u>	<u>(21,090)</u>	<u>(36,615)</u>	<u>(137,509)</u>
Change in Net Position	33,822	192,172	(149,072)	45,535	122,457
Net Position, January 1	<u>3,396,494</u>	<u>5,350,252</u>	<u>2,487,323</u>	<u>366,632</u>	<u>11,600,701</u>
Net Position, December 31	<u>\$ 3,430,316</u>	<u>\$ 5,542,424</u>	<u>\$ 2,338,251</u>	<u>\$ 412,167</u>	<u>\$ 11,723,158</u>

The notes to the financial statements are an integral part of this statement.

City of Arlington, Minnesota
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2022

	Business-type Activities - Enterprise Funds				Total
	601 Water Utility	602 Sewer Utility	604 Electric Utility	605 Storm Water	
Cash Flows from Operating Activities					
Receipts from customers	\$ 431,811	\$ 731,511	\$ 2,370,462	\$ 142,584	\$ 3,676,368
Payments to suppliers and vendors	(236,489)	(257,904)	(2,352,056)	(5,069)	(2,851,518)
Payments to and on behalf of employees	-	-	(99,578)	-	(99,578)
Other receipts	44,986	23,896	4,288	20	73,190
Net Cash Provided (Used) by Operating Activities	<u>240,308</u>	<u>497,503</u>	<u>(76,884)</u>	<u>137,535</u>	<u>798,462</u>
Cash Flows from Capital And Related Financing Activities					
Acquisition of capital assets	(1,058,908)	(76,492)	-	-	(1,135,400)
Bond proceeds	1,105,000	-	-	-	1,105,000
(Increase) decrease in lease receivable	(325,506)	-	-	-	(325,506)
Increase (decrease) in deferred inflows of resources	318,500	-	-	-	318,500
Principal paid on bonds	(55,580)	(284,581)	(40,000)	(85,274)	(465,435)
Interest paid on bonds	(19,574)	(38,324)	(17,310)	(35,630)	(110,838)
Bond issuance costs	(39,048)	-	-	-	(39,048)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(75,116)</u>	<u>(399,397)</u>	<u>(57,310)</u>	<u>(120,904)</u>	<u>(652,727)</u>
Cash Flows from Investing Activities					
Investment market value loss	(25,096)	(10,746)	(8,586)	(2,758)	(47,186)
Net Increase (Decrease) In Cash and Cash Equivalents					
	140,096	87,360	(142,780)	13,873	98,549
Cash and Cash Equivalents, January 1	<u>923,910</u>	<u>694,018</u>	<u>697,287</u>	<u>226,573</u>	<u>2,541,788</u>
Cash and Cash Equivalents, December 31	<u>\$ 1,064,006</u>	<u>\$ 781,378</u>	<u>\$ 554,507</u>	<u>\$ 240,446</u>	<u>\$ 2,640,337</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities					
Operating income (loss)	\$ 90,361	\$ 215,437	\$ (127,982)	\$ 82,150	\$ 259,966
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities					
Other income (expenses) related to operations	44,986	23,896	4,288	20	73,190
Depreciation	114,338	249,300	128,461	57,714	549,813
(Increase) decrease in assets					
Accounts receivable	(11,578)	6,043	(56,387)	(1,895)	(63,817)
Special assessments	341	(97)	(381)	(454)	(591)
Inventories	-	-	(21,299)	-	(21,299)
Increase (decrease) in deferred outflows of resources					
Deferred pension resources	-	-	14,886	-	14,886
Increase (decrease) in liabilities					
Accounts payable	1,860	2,924	10,592	-	15,376
Compensated absences payable	-	-	(3,282)	-	(3,282)
Net pension liability	-	-	17,669	-	17,669
Accrued salaries payable	-	-	324	-	324
Increase (decrease) in deferred inflows of resources					
Deferred pension resources	-	-	(43,773)	-	(43,773)
Net Cash Provided (Used) by Operating Activities	<u>\$ 240,308</u>	<u>\$ 497,503</u>	<u>\$ (76,884)</u>	<u>\$ 137,535</u>	<u>\$ 798,462</u>
Schedule of Noncash Investing, Capital and Financing Activities					
Capital assets acquired on account	<u>\$ 136,347</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 136,347</u>
Amortization of bond premium (discount)	<u>\$ (351)</u>	<u>\$ (334)</u>	<u>\$ -</u>	<u>\$ (1,026)</u>	<u>\$ (685)</u>

The notes to the financial statements are an integral part of this statement.

City of Arlington, Minnesota
Notes to the Financial Statements
December 31, 2022

Note 1: Summary of Significant Accounting Policies

A. Reporting Entity

The City of Arlington, Minnesota (the City) operates under a Home Rule Charter. The City is governed by an elected Mayor and a five-member Council. The Council exercises legislative authority and determines all matters of policy. The Council appoints personnel responsible for the proper administration of all affairs relating to the City. The City has considered all potential units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the primary government to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the primary government. As required by accounting principles generally accepted in the United State of America, these financial statements present the City and its component units, entities for which the City is considered to be financially accountable.

Blended Component Unit. The Arlington Economic Development Authority (EDA) was established under Minnesota statutes, 469.090 through 469.108 for the purpose of promoting economic development within the City. The governing body of the EDA consists of the Mayor, the Economic Development Director, two council members and five council appointed members of the community. The EDA has a December 31 year end and is reported as a special revenue fund. Separate financial statements are not issued for the EDA. The EDA is presented as a blended component as the City is expected to repay the EDA's outstanding debt and has significant influence over activities of the EDA.

B. Government-wide and Fund 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 nonfiduciary activities of the primary government and its component units. 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. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a 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*.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

City of Arlington, Minnesota
Notes to the Financial Statements
December 31, 2022

Note 1: Summary of Significant Accounting Policies (Continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, 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. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, grants, entitlement and donations. On an accrual basis, revenue from property taxes is recognized in the year for which the tax is levied. Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are also recorded as unearned revenue.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

City of Arlington, Minnesota
Notes to the Financial Statements
December 31, 2022

Note 1: Summary of Significant Accounting Policies (Continued)

The City reports the following major governmental funds:

The *General fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Ambulance fund* is used to account for the costs associated with the City's ambulance service and to insure that user charges are sufficient to pay for those costs.

The *Debt Service fund* accounts for the accumulation of resources and payment of general obligation bond principal and interest from governmental resources and special assessment bond principal and interest from special assessment levies when the City is obligated in some manner for the payment.

The *Capital Equipment fund* accounts for current and future equipment purchases.

The *Medical Center fund* accounts for the revenues and costs associated with the City's Medical Center.

The City reports the following major proprietary funds:

The *Water Utility fund* accounts for costs associated with the City's water system and to ensure that user charges are sufficient to pay for those costs.

The *Sewer Utility fund* accounts for the costs associated with the City's sewer system and to ensure that user charges are sufficient to pay for those costs.

The *Electric Utility fund* accounts for the costs associated with the City's electric power and to ensure that user charges are sufficient to pay for those costs.

The *Storm Water fund* accounts for the operation, maintenance, and capital improvements of the City's storm water system.

As a general rule the effect of interfund activity has been eliminated from government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's water, sewer and storm water drainage functions and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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 for sales and services. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Equity

Deposits and Investments

The City's cash and temporary investments are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. The proprietary funds' portion in the government-wide cash and temporary investments pool is considered to be cash and cash equivalents for purposes of the statements of cash flows.

City of Arlington, Minnesota
Notes to the Financial Statements
December 31, 2022

Note 1: Summary of Significant Accounting Policies (Continued)

Cash balances from all funds are pooled and invested, to the extent available, in certificates of deposit and other authorized investments. Earnings from such investments are allocated on the basis of applicable participation by each of the funds.

The City may invest idle funds as authorized by Minnesota statutes, as follows:

1. Direct obligations or obligations guaranteed by the United States or its agencies.
2. Shares of investment companies registered under the Federal Investment Company Act of 1940 and received the highest credit rating, rated in one of the two highest rating categories by a statistical rating agency, and have a final maturity of thirteen months or less.
3. General obligations of a state or local government with taxing powers rated "A" or better; revenue obligations rated "AA" or better.
4. General obligations of the Minnesota Housing Finance Agency rated "A" or better.
5. Obligation of a school district with an original maturity not exceeding 13 months and (i) rated in the highest category by a national bond rating service or (ii) enrolled in the credit enhancement program pursuant to state statute section 126C.55
6. Bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System.
7. Commercial paper issued by United States banks corporations or their Canadian subsidiaries, of highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less.
8. Repurchase or reverse repurchase agreements and securities lending agreements with financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.
9. Guaranteed investment contracts (GIC's) issued or guaranteed by a United States commercial bank, a domestic branch of a foreign bank, a United States insurance company, or its Canadian subsidiary, whose similar debt obligations were rated in one of the top two rating categories by a nationally recognized rating agency.

Broker money market funds operate in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the shares.

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The City's recurring fair value measurements are listed in detail on page 60.

The City has the following recurring fair value measurements as of December 31, 2022:

- Negotiable certificates of deposit of \$2,250,767 are valued using quoted market prices (Level 2 inputs).

City of Arlington, Minnesota
Notes to the Financial Statements
December 31, 2022

Note 1: Summary of Significant Accounting Policies (Continued)

The Minnesota Municipal Money Market Fund is regulated by Minnesota statutes and the Board of Directors of the League of Minnesota Cities and is an external investment pool not registered with the Securities Exchange Commission (SEC) that follows the regulatory rules of the SEC. In accordance with GASB Statement No. 79, the City's investment in this pool is valued at amortized cost, which approximates fair value. There are no restrictions or limitations on withdrawals from the 4M Liquid Asset Fund. Investments in the 4M Plus must be deposited for a minimum of 14 calendar days. Withdrawals prior to the 14-day restriction period will be subject to a penalty equal to seven days interest on the amount withdrawn. Seven days' notice of redemption is required for withdrawals of investments in the 4M Term Series withdrawn prior to the maturity date of that series. A penalty could be assessed as necessary to recoup the Series for any charges, losses, and other costs attributable to the early redemption. Financial statements of the 4M Fund can be obtained by contracting RBC Global Management at 100 South Fifth Street, Suite 2300, Minneapolis, MN 55402-1240.

Property Taxes

The Council annually adopts a tax levy and certifies it to the County in December for collection the following year. The County is responsible for collecting all property taxes for the City. These taxes attach an enforceable lien on taxable property within the City on January 1 and are payable by the property owners in two installments. The taxes are collected by the County Treasurer and tax settlements are made to the City during January, June and November each year.

Delinquent taxes receivable include the past six years' uncollected taxes. Delinquent taxes have been offset by a deferred inflow of resources for delinquent taxes not received within 60 days after year end in the fund financial statements.

Accounts Receivable

Accounts receivable include amounts billed for services provided before year end. Unbilled utility enterprise fund receivables are also included for services provided in 2022. All trade receivables are shown net of an allowance for uncollectible accounts. The allowance for uncollectible accounts at December 31, 2022 are shown in the table below.

	Ambulance Fund	Nonmajor Governmental	Total
Allowance for Uncollectable Accounts	\$ 222,902	\$ 36,721	\$ 259,623

Notes Receivable

Notes receivable are stated at principal amounts plus accrued interest and are uncollateralized. Payments of notes receivable are allocated first to accrued and unpaid interest with the remainder to the outstanding principal balance. Management reviews all notes receivable periodically and estimates a portion, if any, of the balance that will not be collected.

Special Assessments

Special assessments represent the financing for public improvements paid for by benefiting property owners. These assessments are recorded as receivables upon certification to the County. Special assessments are recognized as revenue when they are annually certified to the County or received in cash within 60 days after year end. All governmental special assessments receivable are offset by a deferred inflow of resources in the fund financial statements.

Interfund Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

City of Arlington, Minnesota
Notes to the Financial Statements
December 31, 2022

Note 1: Summary of Significant Accounting Policies (Continued)

Inventories and Prepaid Items

Inventories of materials and supplies are recorded at cost, which approximates market, using the first-in, first out (FIFO) method. Inventories consist of expendable supplies held for consumption. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items and are recorded as prepaid items. The City uses the consumption method to account for all prepaid items.

Assets Held for Resale

The EDA purchased land to be used as an industrial park in 2012. The current value of the assets held for resale as of December 31, 2022 is \$323,660.

Lease Receivable

The City's lease receivables are measured at the present value of lease payments expected to be received during the lease term.

A deferred inflow of resources is recorded for the lease. The deferred inflow of resources is recorded at the initiation of the lease in an amount equal to the initial recording of the lease receivable. The deferred inflow of resources is amortized on a straight-line basis over the term of the lease.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements.

Capital assets, other than infrastructure assets, are defined as assets with an estimated life in excess of two years and an individual cost of more than \$5,000. The City reports infrastructure assets on a network and subsystem basis. Accordingly, the amounts spent for the construction or acquisition of infrastructure assets are capitalized and reported in the government-wide financial statements.

In the case of initial capitalization of general infrastructure assets (i.e., those reported by governmental activities) the City chose to include items dating back to June 30, 1980. The City was able to estimate the historical cost for the initial reporting of these assets through backtrending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). As the City constructs or acquires capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations the City values these capital assets at acquisition value of the item at the date of its donation. Major outlays for capital assets and improvement are capitalized as projects are constructed.

City of Arlington, Minnesota
Notes to the Financial Statements
December 31, 2022

Note 1: Summary of Significant Accounting Policies (Continued)

Property, plant and equipment are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Land Improvements	10 - 20
Buildings and Building Improvements	15 - 40
Distribution and Collection System	15 - 50
Infrastructure	15 - 50
Furniture, Fixtures and Equipment	5 - 10

Deferred Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has only one item that qualifies for reporting in this category. Accordingly, the item, deferred pension resources, is reported only in the statements of net position. This item results from actuarial calculations and current year pension contributions made subsequent to the measurement date.

Compensated Absences

It is the City's policy, adopted in December 18, 2017, to permit employees to accumulate earned but unused paid time off (PTO) benefits. Existing sick leave balances from the previous policy were frozen, to be used for extended sick time of more than three days, or a percentage paid out at termination based the length of service with the City. All PTO pay is accrued when incurred in the government-wide, proprietary and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. Compensated absences liability at year end is shown in the chart below for governmental and business-type activities. The General fund is typically used to liquidate governmental compensated absences payable.

	Governmental Activities	Business-type Activities	Total
Compensated Absences	\$ 12,751	\$ 15,281	\$ 28,032

City of Arlington, Minnesota
Notes to the Financial Statements
December 31, 2022

Note 1: Summary of Significant Accounting Policies (Continued)

Pensions

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA except that PERA's fiscal year end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. The General fund is typically used to liquidate the governmental net pension liability.

The total pension expense for the General Employee Plan (GERP), Police and Fire Plan (PEPFP) and Arlington Fire Relief Association is as follows:

	Public Employees Retirement Association of Minnesota (PERA)		Single Employer	Total
	GERP	PEPFP	FRA	
Pension Expense	\$ 132,778	\$ 37,989	\$ (17,172)	\$ 153,596

Deferred Inflows of Resources

In addition to liabilities, the statement of net position and fund financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises only under a modified accrual basis of accounting that qualifies as needing to be reported in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources: property taxes and special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

The City has additional items which qualify for reporting in this category. The items, deferred pension resources and deferred lease resources, is reported only in the statements of net position and results from actuarial calculations and lease amortization calculations.

Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund 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. Bond premiums and discounts are amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as an expense in the period incurred.

In the fund financial statements, governmental fund types recognized 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.

Note 1: Summary of Significant Accounting Policies (Continued)

Fund Balance

In the fund financial statements, fund balance is divided into five classifications based primarily on the extent to which the City is bound to observe constraints imposed upon the use of resources reported in the governmental funds. These classifications are defined as follows:

Nonspendable - Amounts that cannot be spent because they are not in spendable form, such as prepaid items.

Restricted - Amounts related to externally imposed constraints established by creditors, grantors or contributors; or constraints imposed by state statutory provisions.

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

Assigned - Amounts constrained 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 Council itself or by an official to which the governing body delegates the authority. The Council has adopted a fund balance policy which delegates the authority to assign amounts for specific purposes to the City Administrator.

Unassigned - The residual classification for the General fund and negative residual amounts in other funds.

The City considers restricted amounts to be spent first when both restricted and unrestricted fund balance is available. Additionally, the City would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

The City has formally adopted a fund balance policy for the General fund. The City's policy is to maintain a minimum unrestricted fund balance of 40 percent of budgeted operating expenditures for cash-flow timing needs.

Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net position is displayed in three components:

- a. Net investment in capital assets - Consists of capital assets, net of accumulated depreciation reduced by any outstanding debt attributable to acquire capital assets.
- b. Restricted net position - Consists of net position balances restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments.
- c. Unrestricted net position - All other net position balances that does not meet the definition of "restricted" or "Net investment in capital assets".

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.

City of Arlington, Minnesota
Notes to the Financial Statements
December 31, 2022

Note 2: Stewardship, Compliance and Accountability

A. Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General fund and the following special revenue funds: Fire, Ambulance, Community Hall, Medical Center, EDA Loan, Revolving Loan, Cemetery Perpetual and the Cemetery fund. All annual appropriations lapse at fiscal year-end. The City does not use encumbrance accounting.

In August of each year, all departments of the City submit requests for appropriations to the Administrator so that a budget may be prepared. Before September 30, the proposed budget is presented to the Council for review. The Council holds public hearings and a final budget is prepared and adopted in early December.

The appropriated budget is prepared by fund, function and department. The Council heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the Council. The legal level of budgetary control is the department level. Budgeted amounts are as originally adopted, or as amended by the Council. There were no amendments during the year.

B. Excess of Expenditures Over Appropriations

For the year ended December 31, 2022 expenditures exceeded appropriations in the following funds:

Fund	Budget	Actual	Excess of Expenditures Over Appropriations
General	\$ 1,313,981	\$ 1,368,080	\$ 54,099
Ambulance	511,822	616,328	104,506
Nonmajor			
Special Revenue			
Revolving Loan	45,500	60,680	15,180
Cemetery	10,659	15,212	4,553

The expenditures were funded by revenues in excess of budget and available fund balance.

C. Deficit Fund Equity

The following funds had fund equity deficits at December 31, 2022:

Fund	Amount
Nonmajor	
Capital Projects	
Circle Drive Improvements	\$ 8,946
Special Revenue	
COVID-19	3,274
TIF District 1-4	11,051

These deficits will be funded through future collection of special assessments, future grant revenues and future tax increments.

City of Arlington, Minnesota
Notes to the Financial Statements
December 31, 2022

Note 3: Detailed Notes on all Funds

A. Deposits and Investments

Deposits

Custodial credit risk for deposits and investments is the risk that in the event of a bank failure, the City's deposits and investments may not be returned or the City will not be able to recover collateral securities in the possession of an outside party. In accordance with Minnesota statutes and as authorized by the Council, the City maintains deposits at those depository banks, all of which are members of the Federal Reserve System.

Minnesota statutes require that all City deposits be protected by insurance, surety bond or collateral. The fair value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds, which the exception of irrevocable standby letters of credit issued by Federal Home Loan Banks as this type of collateral only requires collateral pledged equal to 100 percent of the deposits not covered by insurance or bonds.

Authorized collateral in lieu of a corporate surety bond includes:

- United States government Treasury bills, Treasury notes, Treasury bonds;
- Issues of United States government agencies and instrumentalities as quoted by a recognized industry quotation service available to the government entity;
- General obligation securities of any state or local government with taxing powers which is rate "A" or better by a national bond rating service, or revenue obligation securities of any state or local government with taxing powers which is rated "AA" or better by a national bond rating service;
- General obligation securities of a local government with taxing powers may be pledged as collateral against funds deposited by that same local government entity;
- Irrevocable standby letters of credit issued by Federal Home Loan Banks to a municipality accompanied by written evidence that the bank's public debt is rated "AA" or better by Moody's Investors Service, Inc., or Standard & Poor's Corporation; and
- Time deposits that are fully insured by any federal agency.

Minnesota statutes require that all collateral shall be placed in safekeeping in a restricted account at a Federal Reserve Bank, or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral. The selection should be approved by the government entity.

At year end, the City's carrying amount of deposits, bank balance, FDIC coverage, and pledged collateral are shown in the chart below. The amount covered by FDIC and collateral is also shown in the chart.

Carrying Amount of Deposits	\$ 2,466,817
Bank balance	\$ 2,506,570
Covered by FDIC	292,253
Collateralized with securities pledged in the City's name	\$ 2,143,496

City of Arlington, Minnesota
Notes to the Financial Statements
December 31, 2022

Note 3: Detailed Notes on all Funds (Continued)

Investments

As of December 31, 2022, the City had the following investments that are insured or registered, or securities held by the City's agent in the City's name:

Types of Investments	Credit Quality Ratings (1)	Segmented Time Distribution (2)	Amount	Fair Value Measurement Using	
				Level 1	Level 2
Pooled Investments at Amortized Costs					
4M Fund	N/A	less than 6 months	\$ 1,774,314		
Broker Money Market Funds	N/A	less than 6 months	26,611		
Negotiable Certificates of Deposit	N/A	less than 1 year	447,198	\$ -	\$ 447,198
Negotiable Certificates of Deposit	N/A	1 to 5 years	1,803,569	-	1,803,569
Total Investments			<u>\$ 4,051,692</u>	<u>\$ -</u>	<u>\$ 2,250,767</u>

(1) Ratings are provided by various credit rating agencies where applicable to indicate associated credit risk.

(2) Interest rate risk is disclosed using the segmented time distribution method.

N/A Indicates not applicable or available.

The City has not adopted a formal investment policy but follows Minnesota statutes, which reduces the City's exposure to credit, custodial credit and interest rate risks. Specific risk information for the City is as follows:

- *Custodial Credit Risk* - For investments, custodial credit risk is the risk that in the event of a failure of the counterparty, the government would not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. As of December 31, 2022 all investments were insured or registered, or securities were held by the City or its agent in the City's name.
- *Credit Risk* - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State law limits investments in commercial paper that is rated in the highest quality category by at least two nationally recognized rating agencies. The City does not further limit the ratings of their investments.
- *Concentration Risk* - The City does not address concentration with a particular broker. Investment instruments are varied to prevent concentration in any one investment type.
- *Interest Rate Risk* - In accordance with its investment policy, the City diversifies its investment portfolio to eliminate the risk of loss resulting from the over-concentration of assets in a specific maturity. The maturities selected shall provide for stability of income and reasonable liquidity.

Cash and Investments Summary

A reconciliation of cash and investments as shown on the statement of net position for the City, follows:

	Primary Government
Deposits	\$ 2,466,817
Investments	<u>4,051,692</u>
Cash and Temporary Investments	<u>\$ 6,518,509</u>

City of Arlington, Minnesota
Notes to the Financial Statements
December 31, 2022

Note 3: Detailed Notes on all Funds (Continued)

Notes Receivable

The City has issued notes to renovate and remodel business properties and also to finance the startup costs for operating a daycare. A portion of these notes are unearned for 3 years, at which time the note is forgiven if the original property owner is still in business. The remaining balance is eligible to be forgiven after 5 years if the original property owner remains in business.

The City has also issued notes to local businesses with promissory notes. The notes will be paid back to the City with monthly payments and interest at 4.75 percent on all unpaid balances. These notes are secured by mortgages on the property.

In 2014, the City issued a note for building improvements at a 0 percent interest rate and due in full on July 16, 2044.

The loans balances and allowances for doubtful accounts are shown below.

	12/31/2021	12/31/2022	Increase (Decrease)	Allowance for Uncollectable
Forgiveable Small Business Loans	\$ 43,747	\$ 145,893	\$ 102,146	\$ 85,288
Mortgage-backed Small Business Loans	53,128	47,992	(5,136)	60,605
Building Improvement Loan	228,000	228,000	-	-
Total	\$ 324,875	\$ 421,885	\$ 97,010	\$ 145,893

Leases Receivable

Effective January 1, 2014, the City has entered into a lease agreement with Ridgeview Sibley Medical Center (RSMC). The lease term is 30 years with annual payments equal to the Series 2010B Bonds' debt service plus an additional fixed amount per year. RSMC is required to pay additional rent at annual rate equal to 1 percent of the Hospital System's net book value, as calculated based on the Hospital Financial Statements, due June 30 of every year. Lease payments related to the debt service are due 20 days prior to the applicable debt service payments on June 1 and December 1. Additionally, the City also leases out farm land with an interest rate of 0.4 percent and has a lease arrangement with Verizon for placement of an antenna on the City's water tower. The balances of these leases receivable are shown in the table below.

Description	Issue Date	Discount Rate	Current Year Inflow of Resources	Balance at Year End
Doehling Farm Lease	01/01/22	0.40 %	\$ 6,686	\$ 13,266
Verizon Water Tower Antenna Lease	10/01/20	1.19	36,385	325,506
Hospital System Lease - Debt Service	01/01/14	0.74	275,192	1,064,459
Hospital System Lease - Additional	01/01/14	1.73	119,253	1,838,547
				\$ 3,241,778

City of Arlington, Minnesota
Notes to the Financial Statements
December 31, 2022

Note 3: Detailed Notes on all Funds (Continued)

C. Capital Assets

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

	Restated Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital Assets not being Depreciated				
Land	\$ 328,700	\$ -	\$ -	\$ 328,700
Capital Assets being Depreciated				
Buildings and improvements	7,769,621	5,400	-	7,775,021
Infrastructure and other improvements	6,976,353	-	-	6,976,353
Machinery and equipment	1,040,001	125,342	-	1,165,343
Motor vehicles	2,809,695	-	-	2,809,695
Total Capital Assets Being Depreciated	<u>18,595,670</u>	<u>130,742</u>	<u>-</u>	<u>18,726,412</u>
Less Accumulated Depreciation for				
Buildings and improvements	(5,514,803)	(118,116)	-	(5,632,919)
Infrastructure and other improvements	(2,483,715)	(243,018)	-	(2,726,733)
Machinery and equipment	(416,155)	(81,666)	-	(497,821)
Motor vehicles	(2,075,390)	(113,275)	-	(2,188,665)
Total Accumulated Depreciation	<u>(10,490,063)</u>	<u>(556,075)</u>	<u>-</u>	<u>(11,046,138)</u>
Total Capital Assets Being Depreciated, Net	<u>8,105,607</u>	<u>(425,333)</u>	<u>-</u>	<u>7,680,274</u>
Governmental Activities Capital Assets, Net	<u>\$ 8,434,307</u>	<u>\$ (425,333)</u>	<u>\$ -</u>	<u>\$ 8,008,974</u>
	Beginning Balance	Increases	Decreases	Ending Balance
Business-type Activities				
Capital Assets not being Depreciated				
Land	\$ 27,500	\$ -	\$ -	\$ 27,500
Construction in progress	180,157	1,178,241	-	1,358,398
Total Capital Assets Not Being Depreciated	<u>207,657</u>	<u>1,178,241</u>	<u>-</u>	<u>1,385,898</u>
Capital Assets being Depreciated				
Buildings and improvements	24,058,392	31,388	-	24,089,780
Machinery and equipment	510,710	45,104	-	555,814
Total Capital Assets Being Depreciated	<u>24,569,102</u>	<u>76,492</u>	<u>-</u>	<u>24,645,594</u>
Less Accumulated Depreciation for				
Buildings and improvements	(10,297,198)	(512,610)	-	(10,809,808)
Machinery and equipment	(241,874)	(37,203)	-	(279,077)
Total Accumulated Depreciation	<u>(10,539,072)</u>	<u>(549,813)</u>	<u>-</u>	<u>(11,088,885)</u>
Total Capital Assets Being Depreciated, Net	<u>14,030,030</u>	<u>(473,321)</u>	<u>-</u>	<u>13,556,709</u>
Business-type Activities Capital Assets, Net	<u>\$ 14,237,687</u>	<u>\$ 704,920</u>	<u>\$ -</u>	<u>\$ 14,942,607</u>

City of Arlington, Minnesota
Notes to the Financial Statements
December 31, 2022

Note 3: Detailed Notes on all Funds (Continued)

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

Governmental Activities

General government	\$ 104,486
Public safety	142,274
Streets and highways	267,958
Culture and recreation	41,357
	<u>41,357</u>

Total Depreciation Expense - Governmental Activities	\$ 556,075
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Business-type Activities

Water	\$ 114,338
Sewer	249,300
Electric	128,461
Storm Water Drainage	57,714
	<u>57,714</u>

Total Depreciation Expense - Business-type Activities	\$ 549,813
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Construction Commitments

The City has active construction projects as of December 31, 2022. At year end the City's commitments with contractors are as follows:

Project	Spent-to-Date	Remaining Commitment
Water Treatment Facility Rehabilitation Project	<u>\$ 1,037,528</u>	<u>\$ 594,372</u>

D. Interfund Receivables, Payables and Transfers

Due to/from funds represent reclassifications of temporary cash deficits in individual fund and other short term loans expected to be repaid within one year. The amount owing between funds represents reclassification of temporary cash deficits between. At year end, the balances related to TIF cash deficits were as follows:

Receivable Fund	Payable Fund	Amount
General	Nonmajor Governmental	<u>\$ 11,051</u>

Interfund transfers for the year ended December 31, 2022 are as follows:

Transfer Out	Transfer in				Total
	General Fund	Debt Service Fund	Capital Equipment Fund	Nonmajor Governmental Funds	
Nonmajor governmental funds	<u>\$ 26,500</u>	<u>\$ 5,549</u>	<u>\$ 53,902</u>	<u>\$ 1,000</u>	<u>\$ 86,951</u>

All interfund transfers in the current year were budgeted.

City of Arlington, Minnesota
Notes to the Financial Statements
December 31, 2022

Note 3: Detailed Notes on all Funds (Continued)

E. Long-term Debt

General Obligation Equipment Certificates

The City issues general obligation equipment certificates to provide funds for the acquisition and construction of major capital facilities. General obligation equipment certificates have been issued for both governmental and business-type activities. These certificates are reported in the proprietary funds if they are expected to be repaid from proprietary fund revenues. In addition, general obligation equipment certificates have been issued to refund special assessments related bonds.

General obligation equipment certificates are direct obligations and pledge the full faith and credit of the government. These certificates were issued for equipment purchases and will be retired from future property tax levies. General obligation equipment certificates currently outstanding are as follows:

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
G.O. Equipment Certificates of 2019A	\$ 100,000	-	11/18/19	08/01/29	\$ 70,000
G.O. Equipment Certificates of 2019A	185,000	2.00 - 2.50	08/01/19	02/01/29	<u>145,000</u>
Total Equipment Certificates					<u>\$ 215,000</u>

The annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending December 31	General Obligation Bonds Governmental Activities		
	Principal	Interest	Total
2023	\$ 30,000	\$ 3,025	\$ 33,025
2024	30,000	2,625	32,625
2025	30,000	2,225	32,225
2026	30,000	1,825	31,825
2027	30,000	1,425	31,425
2028 - 2029	<u>65,000</u>	<u>1,650</u>	<u>66,650</u>
Total	<u>\$ 215,000</u>	<u>\$ 12,775</u>	<u>\$ 227,775</u>

City of Arlington, Minnesota
Notes to the Financial Statements
December 31, 2022

Note 3: Detailed Notes on all Funds (Continued)

G.O. Special Assessment (Improvement) Bonds

The following bonds were issued to finance various improvements and will be repaid primarily from special assessments levied on the properties benefiting from the improvements. Some issues, however, are partly financed by ad valorem tax levies. All special assessment debt is backed by the full faith and credit of the City. Each year the combined assessment and tax levy equals 105 percent of the amount required for debt service. The excess of 5 percent is to cover any delinquencies in tax or assessment payments.

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
Improvement Projects 2012	\$ 795,000	1.00 - 2.70 %	09/12/12	02/01/28	\$ 230,000
Improvement Projects 2015	2,005,000	2.00 - 3.00	06/01/15	02/01/31	1,275,000
Improvement Projects 2017	1,830,000	2.00 - 2.88	06/20/17	02/01/33	1,405,000
Improvement Projects 2019	2,810,000	2.00 - 3.00	08/01/19	02/01/40	<u>2,580,000</u>
Total G.O. Special Assessment Bonds					<u>\$ 5,490,000</u>

The annual debt service requirements to maturity for G.O. special assessment bonds are as follows:

Year Ending December 31	G.O. Special Assessment Bonds Governmental Activities			G.O. Special Assessment Bonds Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2023	\$ 212,600	\$ 74,725	\$ 287,325	\$ 182,400	\$ 65,771	\$ 248,171
2024	212,600	70,300	282,900	187,400	61,804	249,204
2025	223,600	65,584	289,184	191,400	57,687	249,087
2026	226,534	60,446	286,980	193,466	53,307	246,773
2027	232,569	54,885	287,454	197,431	48,650	246,081
2028 - 2032	1,103,357	178,288	1,281,645	896,643	169,047	1,065,690
2033 - 2037	450,108	65,798	515,906	464,892	72,486	537,378
2038 - 2040	245,000	11,175	256,175	270,000	12,450	282,450
Total	<u>\$ 2,906,368</u>	<u>\$ 581,201</u>	<u>\$ 3,487,569</u>	<u>\$ 2,583,632</u>	<u>\$ 541,202</u>	<u>\$ 3,124,834</u>

City of Arlington, Minnesota
Notes to the Financial Statements
December 31, 2022

Note 3: Detailed Notes on all Funds (Continued)

G.O. Revenue Bonds

The following bonds were issued to finance capital improvements in the enterprise funds. They will be retired from net revenues of the enterprise and debt service funds and are backed by the taxing power of the City.

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
G.O. Clean Water Revolving Fund Notes of 2011	\$ 4,141,932	1.00 %	06/23/11	08/20/31	\$ 2,010,000
G.O. Hospital Revenue Refunding Bonds of 2010B	3,345,000	2.00 - 4.00	12/01/10	12/01/26	985,000
G.O. Water Revenue Bonds of 2022A	1,105,000	2.00 - 2.50	03/08/22	02/01/42	<u>1,105,000</u>
Total G.O. Revenue Bonds					<u><u>\$ 4,100,000</u></u>

Annual revenues from charges for services, principal and interest payments, and percentage of revenue required to cover principal and interest payments are as follows:

	Water	Sewer	Electric	Storm Water
Revenues	\$ 443,048	\$ 725,565	\$ 2,427,230	\$ 144,933
Principal and Interest	75,154	322,905	57,310	120,904
Percentage of Revenues	17.0%	44.5%	2.4%	83.4%

The annual debt service requirements to maturity for G.O. revenue bonds are as follows:

Year Ending December 31	G.O. Revenue Bonds Governmental Activities			G.O. Revenue Bonds Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2023	\$ 235,000	\$ 38,212	\$ 273,212	\$ 265,000	\$ 53,022	\$ 318,022
2024	240,000	29,400	269,400	267,000	40,370	307,370
2025	250,000	20,400	270,400	269,000	37,200	306,200
2026	260,000	10,400	270,400	271,000	34,010	305,010
2027	-	-	-	273,000	30,800	303,800
2028 - 2032	-	-	-	1,180,000	104,640	1,284,640
2033 - 2037	-	-	-	280,000	53,330	333,330
2038 - 2042	-	-	-	310,000	19,450	329,450
Total	<u>\$ 985,000</u>	<u>\$ 98,412</u>	<u>\$ 1,083,412</u>	<u>\$ 3,115,000</u>	<u>\$ 372,822</u>	<u>\$ 3,487,822</u>

City of Arlington, Minnesota
Notes to the Financial Statements
December 31, 2022

Note 3: Detailed Notes on all Funds (Continued)

Revenue Bonds

The following bonds were issued to finance capital improvements in the enterprise funds. They will be retired from net revenues of the enterprise funds.

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
Electric Utility Revenue Bonds of 2014B	\$ 690,000	1.15 - 4.00 %	06/01/14	02/01/30	\$ 410,000
G.O. Disposal System Bonds of 2015	267,000	2.60	12/07/15	02/01/24	<u>68,000</u>
Total Revenue Bonds					<u>\$ 478,000</u>

The annual debt service requirements to maturity for revenue bonds are as follows:

Year Ending December 31	Revenue Bonds Business-type Activities		
	Principal	Interest	Total
2023	\$ 79,000	\$ 16,386	\$ 95,386
2024	79,000	13,702	92,702
2025	50,000	11,360	61,360
2026	50,000	9,360	59,360
2027	50,000	7,410	57,410
2028 - 2030	<u>170,000</u>	<u>9,880</u>	<u>179,880</u>
Total	<u>\$ 478,000</u>	<u>\$ 68,098</u>	<u>\$ 546,098</u>

City of Arlington, Minnesota
Notes to the Financial Statements
December 31, 2022

Note 3: Detailed Notes on all Funds (Continued)

Changes in Long-term Liabilities

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

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Governmental Activities					
Bonds Payable					
Equipment certificates	\$ 263,000	\$ -	\$ (48,000)	\$ 215,000	\$ 30,000
General obligation special assessment bonds	3,112,933	-	(206,565)	2,906,368	212,600
General obligation revenue bonds	1,210,000	-	(225,000)	985,000	235,000
Bond premium	41,970	-	(3,037)	38,933	-
Total Bonds Payable	4,627,903	-	(482,602)	4,145,301	477,600
Compensated Absences	12,689	33,353	(33,291)	12,751	6,582
	<u>\$ 4,640,592</u>	<u>\$ 33,353</u>	<u>\$ (515,893)</u>	<u>\$ 4,158,052</u>	<u>\$ 484,182</u>
Governmental Activity Long-term Liabilities					
Business-type Activities					
Bonds Payable					
Revenue bonds	\$ 553,000	\$ -	\$ (75,000)	\$ 478,000	\$ 79,000
General obligation revenue bonds	2,222,000	1,105,000	(212,000)	3,115,000	265,000
General obligation special assessment bonds	2,762,067	-	(178,435)	2,583,632	182,400
Bond premium	32,499	-	(1,711)	30,788	-
Total Bonds Payable	5,569,566	1,105,000	(467,146)	6,207,420	526,400
Compensated Absences	18,563	7,570	(10,852)	15,281	3,327
	<u>\$ 5,588,129</u>	<u>\$ 1,112,570</u>	<u>\$ (477,998)</u>	<u>\$ 6,222,701</u>	<u>\$ 529,727</u>
Business-type Activity Long-term Liabilities					

City of Arlington, Minnesota
Notes to the Financial Statements
December 31, 2022

Note 4: Defined Benefit Pension Plans - Statewide

A. Plan Description

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

General Employees Retirement Plan

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

Public Employees Police and Fire Plan

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

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 Employee 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 of average salary for each of the first 10 years of service and 1.7 percent of average salary for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7 percent for average salary 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. For members retiring on January 1, 2024, or later, the increase will be delayed until normal retirement age (age 65 if hired prior to July 1, 1989, or age 66 for individuals hired on or after July 1, 1989). Members retiring under Rule of 90 are exempt from the delay to normal retirement.

City of Arlington, Minnesota
Notes to the Financial Statements
December 31, 2022

Note 4: Defined Benefit Pension Plans - Statewide (Continued)

Police and Fire Plan Benefits

Benefits for the Police and Fire Plan members first hired after June 30, 2010, but before July 1, 2014, vest on a prorated basis from 50 percent after five years up to 100 percent after ten years of credited service. Benefits for Police and Fire Plan members first hired after June 30, 2014 vest on a prorated basis from 50 percent after ten years up to 100 percent after twenty years of credited service. The annuity accrual rate is 3 percent of average salary for each year of service. For Police and Fire Plan members who were first hired prior to July 1, 1989, a full annuity is available when age plus years of service equal at least 90.

Benefit increases are provided to benefit recipients each January. The postretirement increase is fixed at 1 percent. Recipients that have been receiving the annuity or benefit for at least 36 months as of the June 30 before the effective date of the increase will receive the full increase. For recipients receiving the annuity or benefit for at least 25 months but less than 36 months as of the June 30 before the effective date of the increase will receive a reduced prorated increase.

C. Contributions

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

General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in fiscal year 2022 and the City was required to contribute 7.50 percent for Coordinated Plan members. The City's contributions to the General Employees Fund for the year ending December 31, 2022, 2021 and 2020 were \$46,216, \$30,041 and \$28,705, respectively. The City's contributions were equal to the required contributions for each year as set by state statute.

Police and Fire Fund Contributions

Police and Fire Plan members were required to contribute 11.80 percent of their annual covered salary in fiscal year 2021 and the City was required to contribute 17.70 percent for Police and Fire Plan members. The City's contributions to the Police and Fire Fund for the years ending December 31, 2022, 2021 and 2020 were \$21,831, \$32,642 and \$41,212, respectively. The City's contributions were equal to the required contributions for each year as set by state statute.

D. Pension Costs

General Employees Fund Pension Costs

At December 31, 2022, the City reported a liability of \$538,562 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 \$15,790. The net pension liability was measured as of June 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportionate share of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2021 through June 30, 2022 relative to the total employer contributions received from all of PERA's participating employers. The City's proportion was 0.0068 percent at the end of the measurement period and 0.0054 percent for the beginning of the period.

City of Arlington, Minnesota
Notes to the Financial Statements
December 31, 2022

Note 4: Defined Benefit Pension Plans - Statewide (Continued)

City's Proportionate Share of the Net Pension Liability	\$ 538,562
State of Minnesota's Proportionate Share of the Net Pension Liability Associated with the City	<u>15,790</u>
Total	<u><u>\$ 554,352</u></u>

For the year ended December 31, 2022, the City recognized pension expense of \$130,419 for its proportionate share of the General Employees Plan's pension expense. In addition, the City recognized \$2,359 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the General Employees Fund.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	\$ 4,498	\$ 4,516
Changes in Actuarial Assumptions	97,550	1,514
Net Difference Between Projected and Actual Earnings on Plan Investments	45,429	-
Changes in Proportion	41,936	-
Contributions Paid to PERA Subsequent to the Measurement Date	<u>25,116</u>	<u>-</u>
Total	<u><u>\$ 214,529</u></u>	<u><u>\$ 6,030</u></u>

The \$25,116 reported as deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2023. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

2023	\$ 74,151
2024	63,568
2025	(3,041)
2026	48,705

Police and Fire Fund Pension Costs

At December 31, 2022, the City reported a liability of \$548,302 for its proportionate share of the Police and Fire Fund's net pension liability. The net pension liability was measured as of June 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportionate share of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2021 through June 30, 2022 relative to the total employer contributions received from all of PERA's participating employers. The City's proportionate share was 0.0126 percent at the end of the measurement period and 0.0163 percent for the beginning of the period.

City of Arlington, Minnesota
Notes to the Financial Statements
December 31, 2022

Note 4: Defined Benefit Pension Plans - Statewide (Continued)

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

The State of Minnesota is included as a non-employer contributing entity in the Police and Fire Retirement Plan Schedule of Employer Allocations and Schedule of Pension Amounts by Employer, Current Reporting Period Only (pension allocation schedules) for the \$9 million in direct state aid. Police and Fire Plan employers need to recognize their proportionate share of the State of Minnesota's pension expense (and grant revenue) under GASB 68 special funding situation accounting and financial reporting requirements. For the year ended December 31, 2022, the City recognized pension expense of \$33,325 for its proportionate share of the Police and Fire Plan's pension expense. In addition, the City recognized an additional \$4,664 as pension expense for its proportionate share of the State of Minnesota's contribution of \$9 million to the Police and Fire Fund.

The State of Minnesota is not included as a non-employer contributing entity in the Police and Fire Pension Plan pension allocation schedules for the \$9 million in fire state aid. The City also recognized \$1,134 for the year ended December 31, 2022 as revenue and an offsetting reduction of net pension liability for its proportionate share of the State of Minnesota's on-behalf contributions to the Police and Fire Fund.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	\$ 38,914	\$ 7,167
Changes in Actuarial Assumptions	375,926	27,056
Net Difference Between Projected and Actual Earnings on Plan Investments	-	26,869
Changes in Proportion	67,185	53,311
Contributions Paid to PERA Subsequent to the Measurement Date	12,915	-
Total	\$ 494,940	\$ 114,403

The \$12,915 reported as deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2023. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

2023	\$ 76,789
2024	79,977
2025	47,791
2026	117,446
2027	45,619

City of Arlington, Minnesota
Notes to the Financial Statements
December 31, 2022

Note 4: Defined Benefit Pension Plans - Statewide (Continued)

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 %
Private Markets	25.0	5.90
Fixed Income	25.0	0.75
International Equity	16.5	5.30
Total	100.00 %	

F. Actuarial Assumptions

The total pension liability in the June 30, 2022, actuarial valuation was determined using an individual entry-age normal actuarial cost method. The long-term rate of return on pension plan investments used in the determination of the total liability is 6.5 percent. This assumption is based on a review of inflation and investments return assumptions from a number of national investment consulting firms. The review provided a range of return investment return rates deemed to be reasonable by the actuary. An investment return of 6.5 percent was deemed to be within that range of reasonableness for financial reporting purposes.

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

Salary growth assumptions in the General Employees Plan range in annual increments from 10.25 percent after one year of service to 3.0 percent after 27 years of service. In the Police and Fire Plan, salary growth assumptions range from 11.75 percent after one year of service to 3.0 percent after 24 years of service.

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

Actuarial assumptions used in the June 30, 2022 valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2019. The assumption changes were adopted by the Board and become effective with the July 1, 2020 actuarial valuation. The most recent four-year experience study for the Police and Fire Plan was completed in 2020 were adopted by the Board and became effective with the July 1, 2021 actuarial valuation.

Note 4: Defined Benefit Pension Plans - Statewide (Continued)

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

General Employees Fund

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

Police and Fire Fund

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

- There have been no changes since the prior valuation.

G. Discount Rate

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

In the Police and Fire Fund, the fiduciary net position was projected to be available to make all projected future benefit payments of current plan members through June 30, 2060. Beginning in fiscal year ended June 30, 2061 for the Police and Fire Fund, projected benefit payments exceed the funds' projected fiduciary net position. Benefit payments projected after were discounted at the municipal bond rate of 3.69 percent (based on the weekly rate closest to but not later than the measurement date of the Fidelity "20-Year Municipal GO AA Index"). The resulting equivalent single discount rate of 5.40 percent for the Police and Fire Fund was determined to give approximately the same present value of projected benefits when applied to all years of projected benefits as the present value of projected benefits using 6.5 percent applied to all years of projected benefits through the point of asset depletion and 3.69 percent thereafter.

City of Arlington, Minnesota
Notes to the Financial Statements
December 31, 2022

Note 4: Defined Benefit Pension Plans - Statewide (Continued)

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:

	City Proportionate Share of NPL		
	1 Percent Decrease (5.50%)	Current (6.50%)	1 Percent Increase (7.50%)
General Employees Fund	\$ 850,687	\$ 538,562	\$ 282,572
	1 Percent Decrease (4.40%)	Current (5.40%)	1 Percent Increase (6.40%)
Police and Fire Fund	829,785	548,302	320,740

I. Pension Plan Fiduciary Net Position

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

Note 5: Defined Benefit Pension Plan - Fire Relief Association

A. Plan Description

All members of the Arlington Fire Department (the Department) are covered by a defined benefit plan administered by the Arlington Fire Department Relief Association (the Association). As of December 31, 2021, the plan covered 27 active firefighters and 13 vested terminated fire fighters whose pension benefits are deferred. The plan is a single employer retirement plan and is established and administered in accordance with Minnesota statute, chapter 69.

The Association maintains a separate Special fund to accumulate assets to fund the retirement benefits earned by the Department's membership. Funding for the Association is derived from an insurance premium tax in accordance with the Volunteer Firefighter's Relief Association Financing Guidelines Act of 1971 (chapter 261 as amended by chapter 509 of Minnesota statutes 1980). Funds are also derived from investment income.

B. Benefits Provided

A firefighter who completes at least 20 years as an active member of the Department is entitled, after age 50, to a full service pension upon retirement.

The bylaws of the Association also provide for an early vested service pension for a retiring member who has completed fewer than 20 years of service. The reduced pension, available to members with 10 years of service, shall be equal to 60 percent of the pension as prescribed by the bylaws. This percentage increases 4 percent per year so that at 20 years of service, the full amount prescribed is paid. Members who retire with less than 20 years of service and have reached the age of 50 years and have completed at least 10 years of active membership are entitled to a reduced service pension not to exceed the amount calculated by multiplying the member's service pension for the completed years of service times the applicable non-forfeitable percentage of pension.

City of Arlington, Minnesota
Notes to the Financial Statements
December 31, 2022

Note 5: Defined Benefit Pension Plan - Fire Relief Association (Continued)

C. Contributions

Minnesota statutes, chapters 424 and 424A authorize pension benefits for volunteer fire relief associations. The plan is funded by fire state aid, investment earnings and, if necessary, employer contributions as specified in Minnesota statutes and voluntary City contributions (if applicable). The State of Minnesota contributed \$28,766 in fire state aid to the plan on behalf of the Fire Department for the year ended December 31, 2022, which was recorded as a revenue. Required employer contributions are calculated annually based on statutory provisions. The City's statutorily-required contributions to the plan for the year ended December 31, 2021 were \$28,766. The City's contributions were equal to the required contributions as set by state statute. In addition, the City made voluntary contributions of \$3,909 to the plan.

D. Pension Costs

At December 31, 2022, the City reported a net pension liability (asset) of (\$356,506) for the Volunteer Firefighter Fund. The net pension liability (asset) was measured as of December 31, 2022. The total pension liability used to calculate the net pension liability (asset) in accordance with GASB 68 was determined by PERA applying an actuarial formula to specific census data certified by the Department. The following table presents the changes in net pension liability (asset) during the year:

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a-b)
Beginning Balance January 1, 2022	\$ 895,874	\$ 1,170,021	\$ (274,147)
Changes for the Year			
Service cost	23,102	-	23,102
Interest cost	51,638	-	51,638
Plan changes	31,544	-	31,544
Contributions (employer)	-	3,909	(3,909)
Nonemployer contributions	-	28,766	(28,766)
Projected investment return	-	67,013	(67,013)
(Gain)/loss	(21,394)	67,558	(88,952)
Benefit payments	(41,833)	(41,833)	-
Total Net Changes	<u>43,057</u>	<u>125,413</u>	<u>(82,356)</u>
Ending Balance December 31, 2022	<u>\$ 938,931</u>	<u>\$ 1,295,434</u>	<u>\$ (356,503)</u>

For the year ended December 31, 2022, the City recognized negative pension expense of \$17,172.

City of Arlington, Minnesota
Notes to the Financial Statements
December 31, 2022

Note 5: Defined Benefit Pension Plan - Fire Relief Association (Continued)

At December 31, 2022, the City reported its deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, to the plan from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ -	\$ 30,343
Changes in Actuarial Assumptions	3,509	-
Net Difference Between Projected and Actual Earnings on Plan Investments	-	130,961
Contributions to Plan Subsequent to the Measurement Date	33,264	-
Total	\$ 36,773	\$ 161,304

Deferred outflows of resources totaling \$33,264 related to pensions resulting from the City's contributions to the plan subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2023. Other amounts reported as deferred outflows of resources related to the plan will be recognized in pension expense as follows:

2023	\$ (34,964)
2024	(58,919)
2025	(37,839)
2026	(18,267)
2027	(4,754)
Thereafter	(3,052)

E. 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 50 Percent of Age 50, 20 Percent at Ages 51-56 and 100 Percent thereafter	
Salary Increases	3.25% per year
Investment Rate of Return	7.50%
20 Year Municipal Bond Yield	3.00%

There were no changes in actuarial assumptions in 2022. The benefit level changed from \$1,750 to \$1,850.

F. Discount Rate

The discount rate used to measure the total pension liability was 5.75 percent. The projection of cash flows used to determine the discount rate assumed that contributions to the plan 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.

City of Arlington, Minnesota
Notes to the Financial Statements
December 31, 2022

Note 5: Defined Benefit Pension Plan - Fire Relief Association (Continued)

G. Pension Liability Sensitivity

The following presents the City's net pension liability (asset) for the plan, calculated using the discount rate disclosed in the preceding paragraph, as well as what the City's net pension liability (asset) would be if it were calculated using a discount rate 1 percent lower or 1 percent higher than the current discount rate:

	1 Percent Decrease (4.75%)	Current (5.75%)	1 Percent Increase (6.75%)
Defined Benefit Plan	\$ (336,507)	\$ (356,503)	\$ (375,423)

H. Asset Allocation

The long-term expected rate of return on pension plan investments was set based on the plan's target investment allocation along with long-term return expectations by asset class. All economic assumptions were based on input from various published sources and projected future financial data available.

The target allocation and best estimates of arithmetic 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
Cash	25.0 %	1.80 %
Domestic Equity	73.0	7.10
Fixed Income	2.0	3.00
Total	100.0 %	

I. Pension Plan Fiduciary Net Position

The Association issues a publicly available financial report. The report may be obtained by writing to the Arlington Fire Department Relief Association, 312 West Alden St, Arlington, MN 55307.

City of Arlington, Minnesota
Notes to the Financial Statements
December 31, 2022

Note 6: Other Information

A. 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 for which the City carries insurance. The City obtains insurance through participation in the League of Minnesota Cities Insurance Trust (LMCIT) which is a risk sharing pool with approximately 800 other governmental units. The City pays an annual premium to LMCIT for its workers compensation and property and casualty insurance. The LMCIT is self-sustaining through member premiums and will reinsure for claims above a prescribed dollar amount for each insurance event. Settled claims have not exceeded the City's coverage in any of the past three fiscal years.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities, if any, include an amount for claims that have been incurred but not reported (IBNRs). The City's management is not aware of any incurred but not reported claims.

B. Legal Debt Margin

In accordance with Minnesota statutes, the City may not incur or be subject to general obligation debt in excess of 3 percent of the market value of taxable property within the City. The taxable market value was \$139,898,400 at December 31, 2022 for a limit of \$4,196,952. The City currently has general obligation debt outstanding subject to this limit of \$215,000, which is significantly less than the limit. General obligation debt is payable solely from ad valorem taxes and therefore, excludes debt financed partially or entirely by special assessments, enterprise fund receipts or tax increments.

C. Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

D. Concentrations

The City receives a significant amount of its annual General fund revenues from the State of Minnesota from the Local Government Aid (LGA). The amount received in 2022 was \$802,953 for LGA. This accounted for 63.8 percent of General fund revenues.

E. Ridgeview Sibley Medical Center

Effective January 1, 2014 (Effective Date), the City entered into a Hospital Operating Lease Agreement (Lease Agreement) with the Sibley Medical Foundation and Ridgeview Medical Center (RMC). As of the Effective Date, RMC became the sole member of the Foundation. Under the terms of the Lease Agreement, the City will transfer all assets and liabilities, except the majority of the capital assets (Facility) and the Series 2010B Bonds, to the Foundation. The Facility and operations of the Medical Center will be leased to the Foundation and the Foundation will operate under the Sibley Medical Center name. The lease term is 30 years with annual payments equal to the Series 2010B Bonds' debt service plus an additional fixed amount per year, which will be guaranteed by RMC. The Lease Agreement provides the City an early termination option 4 years after the Effective Date. RMC has an option to purchase the assets held by the City after 10 years following the Effective Date. The Lease Agreement contains other provisions that may require early termination in specific situations. As of the Effective Date, the facility is operating as Ridgeview Sibley Medical Center (RSMC).

As of the Effective Date, all employees of the Medical Center became employees of RMC or its affiliates. The Foundation and RMC agreed to provide for minimum future capital expenditures at the Facility over the first 4 years of the Lease Agreement.

City of Arlington, Minnesota
Notes to the Financial Statements
December 31, 2022

Note 7: Change in accounting Principles and Restatement

For the year ended December 31, 2022, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 87, Leases. GASB Statement No. 87 enhances the relevance and consistency of information of the government's leasing activities. It establishes requirements for lease accounting based on the principle that leases are financing of the right to use an underlying asset. A lessee is required to recognize a lease liability and an intangible right to use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. These changes were incorporated in the City's 2022 financial statements and had an effect on the beginning fund balance of the governmental funds and beginning net position of the governmental activities.

The implementation of GASB Statement No. 87 had the following effect on fund balances and net position as reported December 31, 2022:

	December 31, 2022		
Fund	Net Position December 31, 2021 as Previously Reported	Prior Period Restatement (1)	Net Position January 1, 2022 as Restated
Hospital Bond Fund	\$ 1,210,000	\$ (1,210,000)	\$ -
			Governmental Activities
Net Position, December 31, 2021			\$ 9,960,777
Adjustments			
Net Book Value Leased Asset			1,325,506
Capital Lease Receivable			146,197
Lease Receivable			(261,703)
Restated Net Position January 1, 2022			\$ 8,750,777

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF ARLINGTON
ARLINGTON, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2022

City of Arlington, Minnesota
 Required Supplementary Information
 For the Year Ended December 31, 2022

Schedule of Employer's Share of PERA Net Pension Liability - General Employees Fund

Fiscal Year Ending	City's Proportion of the Net Pension Liability	City's Proportionate Share of the Net Pension Liability (a)	State's Proportionate Share of the Net Pension Liability Associated with the City (b)	Total (a+b)	City's Covered Payroll (c)	City's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll (a/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
06/30/22	0.0068 %	\$ 538,562	\$ 15,790	\$ 554,352	\$ 490,782	109.7 %	76.7 %
06/30/21	0.0054	230,604	7,087	237,691	405,014	56.9	87.0
06/30/20	0.0047	281,786	8,609	290,395	334,101	84.3	79.0
06/30/19	0.0046	254,324	7,833	262,157	323,974	78.5	80.2
06/30/18	0.0037	205,261	6,871	212,132	251,938	81.5	75.9
06/30/17	0.0041	261,741	3,285	265,026	263,653	99.3	75.9
06/30/16	0.0043	349,139	34,543	383,682	269,466	129.6	68.9
06/30/15	0.0047	243,578	-	243,578	272,088	89.5	78.2

Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.

Schedule of Employer's PERA Contributions - General Employees Fund

Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	City's Covered Payroll (c)	Contributions as a Percentage of Covered Payroll (b/c)
12/31/22	\$ 46,216	\$ 46,216	\$ -	\$ 616,215	7.5 %
12/31/21	30,041	30,041	-	400,545	7.5
12/31/20	28,705	28,705	-	382,739	7.5
12/31/19	24,802	24,802	-	330,690	7.5
12/31/18	22,926	22,926	-	305,681	7.5
12/31/17	17,330	17,330	-	231,065	7.5
12/31/16	20,623	20,623	-	274,979	7.5
12/31/15	20,007	20,007	-	266,754	7.5

Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.

City of Arlington, Minnesota
Required Supplementary Information (Continued)
For the Year Ended December 31, 2022

Notes to the Required Supplementary Information - General Employee Fund

Changes in Actuarial Assumptions

2022 - The mortality improvement scale was changed from Scale MP-2020 to Scale MP-2021.

2021 - 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.

2020 - The price inflation assumption was decreased from 2.50% to 2.25%. The payroll growth assumption was decreased from 3.25% to 3.00%. Assumed salary increase rates were changed as recommended in the June 30, 2019 experience study. The net effect is assumed rates that average 0.25% less than previous rates. Assumed rates of retirement were changed as recommended in the June 30, 2019 experience study. The changes result in more unreduced (normal) retirements and slightly fewer Rule of 90 and early retirements. Assumed rates of termination were changed as recommended in the June 30, 2019 experience study. The new rates are based on service and are generally lower than the previous rates for years 2-5 and slightly higher thereafter. Assumed rates of disability were changed as recommended in the June 30, 2019 experience study. The change results in fewer predicted disability retirements for males and females. The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 General Mortality table, with adjustments. The base mortality table for disabled annuitants was changed from the RP-2014 disabled annuitant mortality table to the PUB-2010 General/Teacher disabled annuitant mortality table, with adjustments. The mortality improvement scale was changed from Scale MP-2018 to Scale MP-2019. The assumed spouse age difference was changed from two years older for females to one year older. The assumed number of married male new retirees electing the 100% Joint & Survivor option changed from 35% to 45%. The assumed number of married female new retirees electing the 100% Joint & Survivor option changed from 15% to 30%. The corresponding number of married new retirees electing the Life annuity option was adjusted accordingly.

2019 - The mortality projection scale was changed from MP-2017 to MP-2018.

2018 - 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.

2017 - The Combined Service Annuity (CSA) loads were changed from 0.8 percent for active members and 60 percent for vested and non-vested deferred members. The revised CSA loads are now 0.0 percent for active member liability, 15.0 percent for vested deferred member liability and 3.0 percent for non-vested deferred member liability. The assumed post-retirement benefit increase rate was changed from 1.0 percent per year for all years to 1.0 percent per year through 2044 and 2.5 percent per year thereafter.

2016 - The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2035 and 2.5 percent per year thereafter to 1.0 percent per year for all future years. The assumed investment return was changed from 7.9 percent to 7.5 percent. The single discount rate was changed from 7.9 percent to 7.5 percent. Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth and inflation were decreased by 0.25 percent to 3.25 percent for payroll growth and 2.50 percent for inflation.

2015 - The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2030 and 2.5 percent per year thereafter to 1.0 percent per year through 2035 and 2.5 percent per year thereafter.

City of Arlington, Minnesota
Required Supplementary Information (Continued)
For the Year Ended December 31, 2022

Notes to the Required Supplementary Information - General Employee Fund (Continued)

Changes in Plan Provisions

2022 - There were no changes in plan provisions since the previous valuation.

2021 - There were no changes in plan provisions since the previous valuation.

2020 - 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 - 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 - The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024. Interest credited on member contributions decreased from 4.00 percent to 3.00 percent, beginning July 1, 2018. Deferred augmentation was changed to 0.00 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply. Contribution stabilizer provisions were repealed. Postretirement benefit increases were changed from 1.00 percent per year with a provision to increase to 2.50 percent upon attainment of 90.00 percent funding ratio to 50.00 percent of the Social Security Cost of Living Adjustment, not less than 1.00 percent and not more than 1.50 percent, beginning January 1, 2019. For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches normal retirement age; does not apply to Rule of 90 retirees, disability benefit recipients, or survivors. Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

2017 - 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 - There were no changes in plan provisions since the previous valuation.

2015 - On January 1, 2015, the Minneapolis Employees Retirement Fund was merged into the General Employees Fund, which increased the total pension liability by \$1.1 billion and increased the fiduciary plan net position by \$892 million. Upon consolidation, state and employer contributions were revised.

City of Arlington, Minnesota
 Required Supplementary Information (Continued)
 For the Year Ended December 31, 2022

Schedule of Employer's Share of PERA Net Pension Liability - Police and Fire Fund

Fiscal Year Ending	City's Proportion of the Net Pension Liability	City's Proportionate Share of the Net Pension Liability (a)	State's Proportionate Share of the Net Pension Liability Associated with the City (b)	Total (a+b)	City's Covered Payroll (c)	City's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll (a/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
06/30/22	0.0126 %	\$ 548,302	\$ 24,043	\$ 572,345	\$ 146,374	374.6 %	70.5 %
06/30/21	0.0163	125,819	5,679	131,498	200,024	62.9	93.7
06/30/20	0.0215	283,393	6,674	290,067	242,900	116.7	87.2
06/30/19	0.0190	202,274	-	202,274	200,598	100.8	89.3
06/30/18	0.0119	126,842	-	126,842	125,254	101.3	88.8
06/30/17	0.0100	135,012	-	135,012	105,197	128.3	85.4
06/30/16	0.0160	642,108	-	642,108	153,512	418.3	63.9
06/30/15	0.0110	124,986	-	124,986	147,587	84.7	86.6

Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.

Schedule of Employer's PERA Contributions - Police and Fire Fund

Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	City's Covered Payroll (c)	Contributions as a Percentage of Covered Payroll (b/c)
12/31/22	\$ 21,831	\$ 21,831	\$ -	\$ 123,341	17.70 %
12/31/21	32,642	32,642	-	184,419	17.70
12/31/20	41,212	41,212	-	232,838	17.70
12/31/19	38,450	38,450	-	226,842	16.95
12/31/18	27,883	27,883	-	172,117	16.20
12/31/17	13,557	13,557	-	83,685	16.20
12/31/16	23,909	23,909	-	147,587	16.20
12/31/15	22,046	22,046	-	136,087	16.20

Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.

City of Arlington, Minnesota
Required Supplementary Information (Continued)
For the Year Ended December 31, 2022

Notes to the Required Supplementary Information - Police and Fire Fund

Changes in Actuarial Assumptions

2022 - The mortality improvement scale was changed from Scale MP-2020 to Scale MP-2021. The single discount rate changed from 6.50 percent to 5.40 percent.

2021 - The investment return and single discount rates were changed from 7.50 percent to 6.50 percent, for financial reporting purposes. The inflation assumption was changed from 2.50 percent to 2.25 percent. The payroll growth assumption was changed from 3.25 percent to 3.00 percent. The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 Public Safety Mortality table. The mortality improvement scale was changed from MP-2019 to MN-2020. The base mortality table for disabled annuitants was changed from the RP-2014 healthy annuitant mortality table (with future mortality improvement according to Scale MP-2019) to the Pub-2010 Public Safety disabled annuitant mortality table (with future mortality improvement according to Scale MP-2020). Assumed rates of salary increase were modified as recommended in the July 14, 2020 experience study. The overall impact is a decrease in gross salary increase rates. Assumed rates of retirement were changed as recommended in the July 14, 2020 experience study. The changes result in slightly more unreduced retirements and fewer assumed early retirements. Assumed rates of withdrawal were changed from select and ultimate rates to service-based rates. The changes result in more assumed terminations. Assumed rates of disability were increased for ages 25-44 and decreased for ages over 49. Overall, proposed rates result in more projected disabilities. Assumed percent married for active female members was changed from 60 percent to 70 percent. Minor changes to form of payment assumptions were applied.

2020 - The mortality projection scale was changed from MP-2018 to MP-2019.

2019 - The mortality projection scale was changed from MP-2017 to MP-2018.

2018 - The mortality projection scale was changed from MP-2016 to MP-2017. As set by statute, the assumed post-retirement benefit increase was changed from 1.0 percent per year through 2064 and 2.5 percent per year, thereafter, to 1.0 percent for all years, with no trigger.

2017 - Assumed salary increases were changed as recommended in the June 30, 2016 experience study. The net effect is proposed rates that average 0.34 percent lower than the previous rates. Assumed rates of retirement were changed, resulting in fewer retirements. The Combined Service Annuity (CSA) load was 30 percent for vested and non-vested deferred members. The CSA has been changed to 33 percent for vested members and 2 percent for non-vested members. The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the mortality tables assumed for healthy retirees. Assumed termination rates were decreased to 3.0 percent for the first three years of service. Rates beyond the select period of three years were adjusted, resulting in more expected terminations overall. Assumed percentage of married female members was decreased from 65 percent to 60 percent. Assumed age difference was changed from separate assumptions for male members (wives assumed to be three years younger) and female members (husbands assumed to be four years older) to the assumption that males are two years older than females. The assumed percentage of female members electing joint and survivor annuities was increased. The assumed post-retirement benefit increase rate was changed from 1.00 percent for all years to 1.00 percent per year through 2064 and 2.50 percent thereafter. The single discount rate was changed from 5.6 percent to 7.5 percent.

2016 - The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2037 and 2.5 percent per year thereafter to 1.0 percent per year for all future years. The assumed investment return was changed from 7.9 percent to 7.5 percent. The single discount rate was changed from 7.9 percent to 5.6 percent. The assumed future salary increases, payroll growth and inflation were decreased by 0.25 percent to 3.25 percent for payroll growth and 2.50 percent for inflation.

2015 - The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2030 and 2.5 percent per year thereafter to 1.0 percent per year through 2037 and 2.5 percent per year thereafter.

City of Arlington, Minnesota
Required Supplementary Information (Continued)
For the Year Ended December 31, 2022

Notes to the Required Supplementary Information - Police and Fire Fund (Continued)

Changes in Plan Provisions

2022 - There were no changes in plan provisions since the previous valuation.

2021 - There were no changes in plan provisions since the previous valuation.

2020 - There were no changes in plan provisions since the previous valuation.

2019 - There were no changes in plan provisions since the previous valuation.

2018 - As set by statute, the assumed post-retirement benefit increase was changed from 1.0 percent per year through 2064 and 2.5 percent per year, thereafter, to 1.0 percent for all years, with no trigger. An end date of July 1, 2048 was added to the existing \$9.0 million state contribution. New annual state aid will equal \$4.5 million in fiscal years 2019 and 2020, and \$9.0 million thereafter until the plan reaches 100 percent funding, or July 1, 2048, if earlier. Member contributions were changed from 10.80 percent to 11.30 percent of pay, effective January 1, 2019 and 11.80 percent of pay, effective January 1, 2020. Employer contributions were changed from 16.20 percent to 16.95 percent of pay, effective January 1, 2019 and 17.70 percent of pay, effective January 1, 2020. Interest credited on member contributions decreased from 4.00 percent to 3.00 percent, beginning July 1, 2018. Deferred augmentation was changed to 0.00 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply. Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

2017 - Assumed salary increases were changed as recommended in the June 30, 2016 experience study. The net effect is proposed rates that average 0.34 percent lower than the previous rates. Assumed rates of retirement were changed, resulting in fewer retirements. The combined service annuity (CSA) load was 30.00 percent for vested and non-vested, deferred members. The CSA has been changed to 33.00 percent for vested members and 2.00 percent for non-vested members. The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the mortality tables assumed for healthy retirees. Assumed termination rates were decreased to 3.00 percent for the first three years of service. Rates beyond the select period of three years were adjusted, resulting in more expected terminations overall. Assumed percentage of married female members was decreased from 65.00 percent to 60.00 percent. Assumed age difference was changed from separate assumptions for male members (wives assumed to be three years younger) and female members (husbands assumed to be four years older) to the assumption that males are two years older than females. The assumed percentage of female members electing joint and survivor annuities was increased. The assumed postretirement benefit increase rate was changed from 1.00 percent for all years to 1.00 percent per year through 2064 and 2.50 percent thereafter. The single discount rate was changed from 5.60 percent per annum to 7.50 percent per annum.

2016 - There were no changes in plan provisions since the previous valuation.

2015 - The post-retirement benefit increase to be paid after attainment of the 90 percent funding threshold was changed, from inflation up to 2.5 percent, to a fixed rate of 2.5 percent.

City of Arlington, Minnesota
Required Supplementary Information (Continued)
For the Year Ended December 31, 2022

Schedule of Changes in the Fire Relief Association's Net Pension Liability (Asset) and Related Ratios

	2022 (Fire Relief Report Date 2021)	2021 (Fire Relief Report Date 2020)	2020 (Fire Relief Report Date 2019)	2019 (Fire Relief Report Date 2018)	2018 (Fire Relief Report Date 2017)
Total Pension Liability					
Service cost	\$ 23,102	\$ 21,895	\$ 19,878	\$ 18,805	\$ 18,346
Interest cost	51,638	47,776	44,279	40,394	37,175
Assumption changes	-	-	5,615	-	-
Plan changes	31,544	17,215	15,635	14,713	-
Gain or loss	(21,394)	-	(19,212)	-	-
Benefit payments	(41,833)	-	(14,814)	-	-
Net Change in Total Pension Liability	43,057	86,886	51,381	73,912	55,521
Total Pension Liability - January 1	895,874	808,988	757,607	683,695	628,174
Total Pension Liability - December 31 (a)	<u>\$ 938,931</u>	<u>\$ 895,874</u>	<u>\$ 808,988</u>	<u>\$ 757,607</u>	<u>\$ 683,695</u>
Plan Fiduciary Net Position					
Employer contributions	3,909	\$ 4,075	\$ 3,959	\$ 3,445	\$ 3,347
Nonemployer contributions	\$ 28,766	27,399	26,263	25,468	25,917
Projected investment return	67,013	57,442	47,312	50,049	41,527
Gain or loss	67,558	97,850	105,416	(119,799)	78,030
Benefit payments	(41,833)	-	(14,814)	-	-
Administrative expenses	-	-	-	-	(900)
Net Change in Plan Fiduciary Net Position	125,413	186,766	168,136	(40,837)	147,921
Plan Fiduciary Net Position - January 1	1,170,021	983,255	815,119	855,956	708,035
Plan Fiduciary Net Position - December 31 (b)	<u>\$ 1,295,434</u>	<u>\$ 1,170,021</u>	<u>\$ 983,255</u>	<u>\$ 815,119</u>	<u>\$ 855,956</u>
Fire Relief's Net Pension Liability (asset) - December 31 (a-b)	<u>\$ (356,503)</u>	<u>\$ (274,147)</u>	<u>\$ (174,267)</u>	<u>\$ (57,512)</u>	<u>\$ (172,261)</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability (b/a)	137.97%	130.60%	121.54%	107.59%	125.20%
Covered-Employee Payroll	N/A	N/A	N/A	N/A	N/A
Fire Relief's Net Pension Liability (asset) as a Percentage of Covered-Employee Payroll	N/A	N/A	N/A	N/A	N/A

Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.

Notes to the Required Supplementary Information - Fire Relief Association

Changes in Actuarial Assumptions

2022 - No changes in assumptions.

2021 - No changes in assumptions.

2020 - The assumed future deferred interest rate changed from 4.0 percent to 5.0 percent to reflect that most deferred members receive the current board-set rate of 5.0 percent.

2019 - The discount decreased from 6.0 percent to 5.75 percent to better reflect the split interest rate based on the estimated investment return on the pension fund for the funded portion of liabilities and the estimated yield of the 20-year AA-rated municipal bonds for the unfunded portion of liabilities.

City of Arlington, Minnesota
 Required Supplementary Information (Continued)
 For the Year Ended December 31, 2022

Notes to the Required Supplementary Information - Fire Relief Association (Continued)

Changes in Plan Provisions

2022 - The benefit level changed from \$1,750 to \$1,850.

2021 - The benefit level changed from \$1,700 to \$1,750.

2020 - The benefit level changed from \$1,650 to \$1,700.

2019 - A benefit level increase from \$1,600 to \$1,650 was reflected in the active liability.

Schedule of Employer's Fire Relief Association Contributions

<u>Year Ending</u>	<u>Actuarial Determined Contribution (a)</u>	<u>Actual Contributions Paid (b)</u>	<u>Contribution Deficiency (Excess) (a-b)</u>
12/31/2022	\$ 28,390	\$ 33,264	\$ (4,874)
12/31/2021	27,766	31,675	(3,909)
12/31/2020	27,399	31,474	(4,075)
12/31/2019	25,565	29,524	(3,959)
12/31/2018	25,468	28,913	(3,445)
12/31/2017	25,737	29,084	(3,347)

Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.

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COMBINING AND INDIVIDUAL FUND
FINANCIAL STATEMENTS AND SCHEDULES

CITY OF ARLINGTON
ARLINGTON, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2022

City of Arlington, Minnesota
 Nonmajor Governmental Funds
 Combining Balance Sheet
 December 31, 2022

	Special Revenue	Capital Projects	Total
Assets			
Cash and temporary investments	\$ 816,361	\$ (7,265)	\$ 809,096
Receivables			
Interest	1,025	-	1,025
Accounts, net of allowance for uncollectibles	17,520	-	17,520
Notes, net of allowance for uncollectibles	275,992	-	275,992
Special assessments	-	47,588	47,588
Delinquent taxes	1,067	-	1,067
Lease	13,266	-	13,266
Due from other governments	236	-	236
Assets held for resale	323,660	-	323,660
	<u>1,449,127</u>	<u>40,323</u>	<u>1,489,450</u>
Total Assets	\$ 1,449,127	\$ 40,323	\$ 1,489,450
Liabilities			
Accounts payable	\$ 6,491	\$ -	\$ 6,491
Due to other funds	11,051	-	11,051
Accrued salaries payable	181	-	181
Unearned revenue	234,520	-	234,520
Total Liabilities	252,243	-	252,243
Deferred Inflows of Resources			
Deferred lease revenue	13,234	-	13,234
Unavailable revenue			
Property taxes	1,067	-	1,067
Special assessments	-	47,588	47,588
Total Deferred Inflows of Resources	14,301	47,588	61,889
Fund Balances			
Restricted			
Future loans	493,271	-	493,271
Current loans	275,992	-	275,992
Cemetery operations	115,722	-	115,722
Park dedication	38,712	-	38,712
Committed			
Economic development	4,432	-	4,432
Cemetery operations	14,851	-	14,851
Assigned			
Fire department operations	226,084	-	226,084
Community center operations	27,844	-	27,844
Capital projects	-	1,681	1,681
Unassigned	(14,325)	(8,946)	(23,271)
Total Fund Balances	1,182,583	(7,265)	1,175,318
	<u>1,449,127</u>	<u>40,323</u>	<u>1,489,450</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balance	\$ 1,449,127	\$ 40,323	\$ 1,489,450

City of Arlington, Minnesota
 Nonmajor Governmental Funds
 Combining Statement of Revenues, Expenditures
 and Changes in Fund Balances
 For the Year Ended December 31, 2022

	Special Revenue	Capital Projects	Total
Revenues			
Taxes	\$ 116,320	\$ 7,825	\$ 124,145
Special assessments	-	25,935	25,935
Intergovernmental	6,110	-	6,110
Charges for services	135,141	-	135,141
Investment earnings (loss)	(12,300)	(8)	(12,308)
Miscellaneous	9,710	-	9,710
Total Revenues	254,981	33,752	288,733
Expenditures			
Current			
Public safety	123,123	-	123,123
Culture and recreation	67,878	-	67,878
Housing and economic development	118,875	-	118,875
Miscellaneous	15,212	-	15,212
Capital outlay			
Public safety	1,794	-	1,794
Culture and recreation	1,459	-	1,459
Housing and economic development	-	6,489	6,489
Total Expenditures	328,341	6,489	334,830
Excess (Deficiency) of Revenues Over (Under) Expenditures	(73,360)	27,263	(46,097)
Other Financing Sources (Uses) Transfers in	1,000	-	1,000
Net Change in Fund Balances	(72,360)	27,263	(45,097)
Fund Balances, January 1	1,254,943	(34,528)	1,220,415
Fund Balances, December 31	\$ 1,182,583	\$ (7,265)	\$ 1,175,318

City of Arlington, Minnesota
 Nonmajor Special Revenue Funds
 Combining Balance Sheet
 December 31, 2022

	200	201	203	204 EDA Loan Programs	205 Revolving Loan
	COVID-19	Fire	Community Hall		
Assets					
Cash and temporary investments	\$ 231,028	\$ 209,590	\$ 32,761	\$ 100,133	\$ 69,355
Receivables					
Interest	218	274	23	163	128
Accounts, net of allowance for uncollectibles	-	17,280	240	-	-
Notes, net of allowance for uncollectibles	-	-	-	-	47,992
Delinquent taxes	-	620	430	-	-
Lease	-	-	-	13,266	-
Due from other governments	-	151	81	-	-
Assets held for resale	-	-	-	323,660	-
Total Assets	<u>\$ 231,246</u>	<u>\$ 227,915</u>	<u>\$ 33,535</u>	<u>\$ 437,222</u>	<u>\$ 117,475</u>
Liabilities					
Accounts payable	\$ -	\$ 1,211	\$ 5,080	\$ 200	\$ -
Due to other funds	-	-	-	-	-
Accrued salaries payable	-	-	181	-	-
Unearned revenue	234,520	-	-	-	-
Total Liabilities	<u>234,520</u>	<u>1,211</u>	<u>5,261</u>	<u>200</u>	<u>-</u>
Deferred Inflows of Resources					
Unavailable revenue					
Property taxes	-	620	430	-	-
Deferred lease revenue	-	-	-	13,234	-
Total Deferred Inflows of Resources	<u>-</u>	<u>620</u>	<u>430</u>	<u>13,234</u>	<u>-</u>
Fund Balances					
Restricted					
Future loans	-	-	-	423,788	69,483
Current loans	-	-	-	-	47,992
Cemetery operations	-	-	-	-	-
Park dedication	-	-	-	-	-
Committed					
Economic development	-	-	-	-	-
Cemetery operations	-	-	-	-	-
Assigned					
Fire department operations	-	226,084	-	-	-
Community center operations	-	-	27,844	-	-
Unassigned	(3,274)	-	-	-	-
Total Fund Balances	<u>(3,274)</u>	<u>226,084</u>	<u>27,844</u>	<u>423,788</u>	<u>117,475</u>
Total Liabilities and Fund Balance	<u>\$ 231,246</u>	<u>\$ 227,915</u>	<u>\$ 33,535</u>	<u>\$ 437,222</u>	<u>\$ 117,475</u>

206	207	208	215	301	410	
Small Cities Program	Cemetery	Cemetery Perpetual Care	Park Dedication	TIF District 1-4	EDA	Total
\$ -	\$ 14,683	\$ 115,722	\$ 38,663	\$ -	\$ 4,426	\$ 816,361
-	164	-	49	-	6	1,025
-	-	-	-	-	-	17,520
228,000	-	-	-	-	-	275,992
-	17	-	-	-	-	1,067
-	-	-	-	-	-	13,266
-	4	-	-	-	-	236
-	-	-	-	-	-	323,660
<u>\$ 228,000</u>	<u>\$ 14,868</u>	<u>\$ 115,722</u>	<u>\$ 38,712</u>	<u>\$ -</u>	<u>\$ 4,432</u>	<u>\$ 1,449,127</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,491
-	-	-	-	11,051	-	11,051
-	-	-	-	-	-	181
-	-	-	-	-	-	234,520
-	-	-	-	11,051	-	252,243
-	17	-	-	-	-	1,067
-	-	-	-	-	-	13,234
-	17	-	-	-	-	14,301
-	-	-	-	-	-	493,271
228,000	-	-	-	-	-	275,992
-	-	115,722	-	-	-	115,722
-	-	-	38,712	-	-	38,712
-	-	-	-	-	4,432	4,432
-	14,851	-	-	-	-	14,851
-	-	-	-	-	-	226,084
-	-	-	-	-	-	27,844
-	-	-	-	(11,051)	-	(14,325)
<u>228,000</u>	<u>14,851</u>	<u>115,722</u>	<u>38,712</u>	<u>(11,051)</u>	<u>4,432</u>	<u>1,182,583</u>
<u>\$ 228,000</u>	<u>\$ 14,868</u>	<u>\$ 115,722</u>	<u>\$ 38,712</u>	<u>\$ -</u>	<u>\$ 4,432</u>	<u>\$ 1,449,127</u>

City of Arlington, Minnesota
 Nonmajor Special Revenue Funds
 Combining Statement of Revenues, Expenditures
 and Changes in Fund Balances
 For the Year Ended December 31, 2022

	200	201	203	204	205
	COVID-19	Fire	Community Hall	EDA Loan Programs	Revolving Loan
Revenues					
Taxes					
General property taxes	\$ -	\$ 74,171	\$ 40,139	\$ -	\$ -
Intergovernmental					
State	-	6,110	-	-	-
Charges for services					
Public safety	-	67,365	-	-	-
Culture and recreation	-	-	40,765	-	-
Other	-	-	-	11,686	-
Investment earnings (loss)	(3,061)	(3,423)	(87)	(1,813)	(1,375)
Miscellaneous					
Contributions and donations	-	3,427	-	-	-
Loan payments received	-	-	-	-	2,413
Other	-	1,290	2,365	-	-
Total Revenues	<u>(3,061)</u>	<u>148,940</u>	<u>83,182</u>	<u>9,873</u>	<u>1,038</u>
Expenditures					
Current					
Public safety	-	123,123	-	-	-
Culture and recreation	-	-	67,878	-	-
Housing and economic development	-	-	-	47,144	60,680
Miscellaneous	-	-	-	-	-
Capital outlay					
Public safety	-	1,794	-	-	-
Culture and recreation	-	-	1,459	-	-
Total Expenditures	<u>-</u>	<u>124,917</u>	<u>69,337</u>	<u>47,144</u>	<u>60,680</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(3,061)	24,023	13,845	(37,271)	(59,642)
Other Financing Sources (Uses)					
Transfers in	-	-	1,000	-	-
Net Change in Fund Balances	(3,061)	24,023	14,845	(37,271)	(59,642)
Fund Balances, January 1	<u>(213)</u>	<u>202,061</u>	<u>12,999</u>	<u>461,059</u>	<u>177,117</u>
Fund Balances, December 31	<u>\$ (3,274)</u>	<u>\$ 226,084</u>	<u>\$ 27,844</u>	<u>\$ 423,788</u>	<u>\$ 117,475</u>

206	207	208	215	301	410	
Small Cities Program	Cemetery	Cemetery Perpetual Care	Park Dedication	TIF District 1-4	EDA	Total
\$ -	\$ 2,010	\$ -	\$ -	\$ -	\$ -	\$ 116,320
-	-	-	-	-	-	6,110
-	-	-	-	-	-	67,365
-	-	-	-	-	-	40,765
-	14,661	664	-	-	-	27,011
-	(1,909)	-	(568)	-	(64)	(12,300)
-	215	-	-	-	-	3,642
-	-	-	-	-	-	2,413
-	-	-	-	-	-	3,655
-	<u>14,977</u>	<u>664</u>	<u>(568)</u>	<u>-</u>	<u>(64)</u>	<u>254,981</u>
-	-	-	-	-	-	123,123
-	-	-	-	-	-	67,878
-	-	-	-	11,051	-	118,875
-	15,212	-	-	-	-	15,212
-	-	-	-	-	-	1,794
-	-	-	-	-	-	1,459
-	<u>15,212</u>	<u>-</u>	<u>-</u>	<u>11,051</u>	<u>-</u>	<u>328,341</u>
-	(235)	664	(568)	(11,051)	(64)	(73,360)
-	-	-	-	-	-	1,000
-	(235)	664	(568)	(11,051)	(64)	(72,360)
<u>228,000</u>	<u>15,086</u>	<u>115,058</u>	<u>39,280</u>	<u>-</u>	<u>4,496</u>	<u>1,254,943</u>
<u>\$ 228,000</u>	<u>\$ 14,851</u>	<u>\$ 115,722</u>	<u>\$ 38,712</u>	<u>\$ (11,051)</u>	<u>\$ 4,432</u>	<u>\$ 1,182,583</u>

City of Arlington, Minnesota
 Fire Fund
 Schedule of Revenues, Expenditures and Changes in Fund Balances
 Budget and Actual
 For the Year Ended December 31, 2022
 (With Comparative Actual Amounts for Year Ended December 31, 2021)

	2022		Variance with Final Budget	2021
	Final Budget	Actual Amounts		Actual Amounts
Revenues				
Taxes				
General property taxes	\$ 74,000	\$ 74,171	\$ 171	\$ -
Intergovernmental	2,500	6,110	3,610	2,295
Charges for services	57,605	67,365	9,760	63,051
Investment earnings (loss)	1,000	(3,423)	(4,423)	(406)
Miscellaneous				
Contributions and donations	100	3,427	3,327	38,856
Other	150	1,290	1,140	2,249
Total Revenues	<u>135,355</u>	<u>148,940</u>	<u>13,585</u>	<u>106,045</u>
Expenditures				
Current				
Public safety				
Fire				
Personal services	59,746	48,298	11,448	56,062
Supplies	1,500	909	591	1,309
Other services and charges	86,887	73,916	12,971	66,284
Capital outlay				
Public safety	-	1,794	(1,794)	4,550
Total Expenditures	<u>148,133</u>	<u>124,917</u>	<u>23,216</u>	<u>128,205</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(12,778)	24,023	36,801	(22,160)
Other Financing Sources (Uses)				
Transfers in	-	-	-	85,000
Net Change in Fund Balances	(12,778)	24,023	36,801	62,840
Fund Balances, January 1	<u>202,061</u>	<u>202,061</u>	-	<u>139,221</u>
Fund Balances, December 31	<u>\$ 189,283</u>	<u>\$ 226,084</u>	<u>\$ 36,801</u>	<u>\$ 202,061</u>

City of Arlington, Minnesota
Community Hall Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual
For the Year Ended December 31, 2022
(With Comparative Actual Amounts for Year Ended December 31, 2021)

	2022		Variance with Final Budget	2021
	Final Budget	Actual Amounts		Actual Amounts
Revenues				
Taxes				
General property taxes	\$ 40,000	\$ 40,139	\$ 139	\$ -
Charges for services	29,500	40,765	11,265	38,424
Investment earnings (loss)	25	(87)	(112)	-
Miscellaneous				
Other	3,500	2,365	(1,135)	2,548
Total Revenues	<u>73,025</u>	<u>83,182</u>	<u>10,157</u>	<u>40,972</u>
Expenditures				
Current				
Culture and recreation				
Personal services	15,614	14,141	1,473	28,390
Supplies	4,000	3,233	767	3,099
Other services and charges	53,631	50,504	3,127	51,470
Capital outlay				
Culture and recreation	-	1,459	(1,459)	7,925
Total Expenditures	<u>73,245</u>	<u>69,337</u>	<u>3,908</u>	<u>90,884</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(220)	13,845	14,065	(49,912)
Other Financing Sources (Uses)				
Transfers in	<u>1,000</u>	<u>1,000</u>	-	<u>60,660</u>
Net Change in Fund Balances	780	14,845	14,065	10,748
Fund Balances, January 1	<u>12,999</u>	<u>12,999</u>	-	<u>2,251</u>
Fund Balances, December 31	<u>\$ 13,779</u>	<u>\$ 27,844</u>	<u>\$ 14,065</u>	<u>\$ 12,999</u>

City of Arlington, Minnesota
 EDA Loan Programs
 Schedule of Revenues, Expenditures and Changes in Fund Balances
 Budget and Actual
 For the Year Ended December 31, 2022
 (With Comparative Actual Amounts for Year Ended December 31, 2021)

	2022		Variance with Final Budget	2021
	Final Budget	Actual Amounts		Actual Amounts
Revenues				
Investment earnings (loss)	\$ 2,000	\$ (1,813)	\$ (3,813)	\$ (217)
Charges for services				
Other	1,800	11,686	9,886	1,800
Total Revenues	<u>3,800</u>	<u>9,873</u>	<u>6,073</u>	<u>1,583</u>
Expenditures				
Current				
Housing and economic development				
Other services and charges	<u>49,700</u>	<u>47,144</u>	<u>2,556</u>	<u>24,771</u>
Net Change in Fund Balances	(45,900)	(37,271)	8,629	(23,188)
Fund Balances, January 1	<u>461,059</u>	<u>461,059</u>	-	<u>484,247</u>
Fund Balances, December 31	<u><u>\$ 415,159</u></u>	<u><u>\$ 423,788</u></u>	<u><u>\$ 8,629</u></u>	<u><u>\$ 461,059</u></u>

City of Arlington, Minnesota
Revolving Loan
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual
For the Year Ended December 31, 2022
(With Comparative Actual Amounts for Year Ended December 31, 2021)

	2022		Variance with Final Budget	2021
	Final Budget	Actual Amounts		Actual Amounts
Revenues				
Investment earnings (loss)	\$ 1,800	\$ (1,375)	\$ (3,175)	\$ (247)
Miscellaneous				
Loan payments received	7,200	2,413	(4,787)	2,963
Total Revenues	<u>9,000</u>	<u>1,038</u>	<u>(7,962)</u>	<u>2,716</u>
Expenditures				
Current				
Housing and economic development				
Other services and charges	<u>45,500</u>	<u>60,680</u>	<u>(15,180)</u>	<u>25</u>
Net Change in Fund Balances	(36,500)	(59,642)	(23,142)	2,691
Fund Balances, January 1	<u>177,117</u>	<u>177,117</u>	<u>-</u>	<u>174,426</u>
Fund Balances, December 31	<u><u>\$ 140,617</u></u>	<u><u>\$ 117,475</u></u>	<u><u>\$ (23,142)</u></u>	<u><u>\$ 177,117</u></u>

City of Arlington, Minnesota
Cemetery Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual
For the Year Ended December 31, 2022
(With Comparative Actual Amounts for Year Ended December 31, 2021)

	2022		Variance with Final Budget	2021
	Final Budget	Actual Amounts		Actual Amounts
Revenues				
Taxes				
General property taxes	\$ 2,000	\$ 2,010	\$ 10	\$ -
Charges for services	4,900	14,661	9,761	8,400
Investment earnings (loss)	1,500	(1,909)	(3,409)	(199)
Miscellaneous				
Contributions and donations	-	215	215	250
Total Revenues	<u>8,400</u>	<u>14,977</u>	<u>6,577</u>	<u>8,451</u>
Expenditures				
Current				
Miscellaneous				
Cemetery				
Personal services	6,759	5,184	1,575	5,282
Other services and charges	3,900	10,028	(6,128)	6,058
Total Expenditures	<u>10,659</u>	<u>15,212</u>	<u>(4,553)</u>	<u>11,340</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(2,259)	(235)	2,024	(2,889)
Other Financing Sources (Uses)				
Transfers in	-	-	-	7,000
Net Change in Fund Balances	(2,259)	(235)	2,024	4,111
Fund Balances, January 1	<u>15,086</u>	<u>15,086</u>	-	<u>10,975</u>
Fund Balances, December 31	<u>\$ 12,827</u>	<u>\$ 14,851</u>	<u>\$ 2,024</u>	<u>\$ 15,086</u>

City of Arlington, Minnesota
 Cemetery Perpetual Care Fund
 Schedule of Revenues, Expenditures and Changes in Fund Balances
 Budget and Actual
 For the Year Ended December 31, 2022
 (With Comparative Actual Amounts for Year Ended December 31, 2021)

	2022		Variance with Final Budget	2021
	Final Budget	Actual Amounts		Actual Amounts
Revenues				
Charges for services	\$ 110	\$ 664	\$ 554	\$ 5,450
Fund Balances, January 1	<u>115,058</u>	<u>115,058</u>	-	<u>109,608</u>
Fund Balances, December 31	<u>\$ 115,168</u>	<u>\$ 115,722</u>	<u>\$ 554</u>	<u>\$ 115,058</u>

City of Arlington, Minnesota
 Nonmajor Capital Projects Funds
 Combining Balance Sheet
 December 31, 2022

	102	419	
	Tax	Circle Drive	Total
	<u>Abatement</u>	<u>Improvements</u>	<u>Total</u>
Assets			
Cash and temporary investments	\$ 1,681	\$ (8,946)	\$ (7,265)
Receivables			
Special assessments			
Deferred	-	47,588	47,588
	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$ 1,681</u>	<u>\$ 38,642</u>	<u>\$ 40,323</u>
Deferred Inflows of Resources			
Unavailable revenue			
Special assessments	\$ -	\$ 47,588	\$ 47,588
	<u> </u>	<u> </u>	<u> </u>
Fund Balances			
Assigned			
Capital projects	1,681	-	1,681
Unassigned	-	(8,946)	(8,946)
	<u> </u>	<u> </u>	<u> </u>
Total Fund Balances	<u>1,681</u>	<u>(8,946)</u>	<u>(7,265)</u>
Total Deferred Inflows			
of Resources and Fund Balances	<u>\$ 1,681</u>	<u>\$ 38,642</u>	<u>\$ 40,323</u>

City of Arlington, Minnesota
 Nonmajor Capital Projects Funds
 Combining Statement of Revenues, Expenditures
 and Changes in Fund Balances
 For the Year Ended December 31, 2022

	102	419	
	Tax	Circle Drive	
	<u>Abatement</u>	<u>Improvements</u>	<u>Total</u>
Revenues			
Taxes	\$ 7,825	\$ -	\$ 7,825
Special assessments	-	25,935	25,935
Investment earnings (loss)	(8)	-	(8)
Total Revenues	<u>7,817</u>	<u>25,935</u>	<u>33,752</u>
Expenditures			
Capital outlay			
Housing and economic development	<u>6,489</u>	<u>-</u>	<u>6,489</u>
Net Change in Fund Balances	1,328	25,935	27,263
Fund Balances, January 1	<u>353</u>	<u>(34,881)</u>	<u>(34,528)</u>
Fund Balances, December 31	<u><u>\$ 1,681</u></u>	<u><u>\$ (8,946)</u></u>	<u><u>\$ (7,265)</u></u>

City of Arlington, Minnesota
General Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual (Continued on the Following Pages)
General Fund
For the Year Ended December 31, 2022
(With Comparative Actual Amounts for Year Ended December 31, 2021)

	2022				2021
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
Revenues					
Taxes					
Property taxes	\$ 284,053	\$ 284,053	\$ 289,624	\$ 5,571	\$ 730,269
Franchise taxes	14,000	14,000	14,936	936	14,031
Total taxes	<u>298,053</u>	<u>298,053</u>	<u>304,560</u>	<u>6,507</u>	<u>744,300</u>
Special assessments	<u>10,000</u>	<u>10,000</u>	-	(10,000)	-
Licenses and permits					
Business and non-business	<u>72,900</u>	<u>72,900</u>	47,663	(25,237)	78,140
State					
Local government aid	802,953	802,953	802,953	-	796,203
Property tax credits	162	162	125	(37)	135
Fire aid	28,000	28,000	28,390	390	27,766
Police aid	13,000	13,000	6,859	(6,141)	15,514
Other grants	15,445	15,445	20,308	4,863	20,911
Total state aid	<u>859,560</u>	<u>859,560</u>	<u>858,635</u>	<u>(925)</u>	<u>860,529</u>
Charges for services					
General government	6,620	6,620	10,344	3,724	7,143
Streets and highways	8,200	8,200	9,465	1,265	8,940
Culture and recreation	1,950	1,950	3,250	1,300	2,375
Total charges for services	<u>16,770</u>	<u>16,770</u>	<u>23,059</u>	<u>6,289</u>	<u>18,458</u>
Fines and forfeits	<u>10,198</u>	<u>10,198</u>	8,106	(2,092)	9,215
Investment earnings (loss)	<u>9,500</u>	<u>9,500</u>	(14,545)	(24,045)	(1,121)
Miscellaneous					
Contributions and donations	4,500	4,500	5,651	1,151	11,222
Other	6,000	6,000	25,219	19,219	47,822
Total miscellaneous	<u>10,500</u>	<u>10,500</u>	<u>30,870</u>	<u>20,370</u>	<u>59,044</u>
Total revenues	<u>1,287,481</u>	<u>1,287,481</u>	<u>1,258,348</u>	<u>(29,133)</u>	<u>1,768,565</u>

City of Arlington, Minnesota
General Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual (Continued)
General Fund
For the Year Ended December 31, 2022
(With Comparative Actual Amounts for Year Ended December 31, 2021)

	2022			Variance with Final Budget	2021
	Budgeted Amounts		Actual Amounts		Actual Amounts
	Original	Final			
Expenditures					
Current					
General government					
Mayor and Council					
Personal services	\$ 40,799	\$ 40,799	\$ 34,500	\$ 6,299	\$ 33,746
Administration/clerk					
Personal services	85,273	85,273	93,482	(8,209)	69,880
Supplies	12,000	12,000	20,675	(8,675)	17,161
Other services and charges	132,655	132,655	128,784	3,871	146,149
Total administration/clerk	<u>229,928</u>	<u>229,928</u>	<u>242,941</u>	<u>(13,013)</u>	<u>233,190</u>
Elections					
Personal services	3,364	3,364	6,486	(3,122)	-
Supplies	-	-	751	(751)	-
Other services and charges	500	500	1,065	(565)	-
Total elections	<u>3,864</u>	<u>3,864</u>	<u>8,302</u>	<u>(4,438)</u>	<u>-</u>
Assessor					
Other services and charges	<u>10,940</u>	<u>10,940</u>	<u>10,940</u>	<u>-</u>	<u>10,940</u>
Legal					
Other services and charges	<u>11,438</u>	<u>11,438</u>	<u>12,084</u>	<u>(646)</u>	<u>7,558</u>
Planning and zoning					
Personal services	46,643	46,643	48,897	(2,254)	33,480
Supplies	100	100	302	(202)	181
Other services and charges	79,720	79,720	55,472	24,248	76,907
Total planning and zoning	<u>126,463</u>	<u>126,463</u>	<u>104,671</u>	<u>21,792</u>	<u>110,568</u>
Municipal building					
Supplies	2,500	2,500	1,386	1,114	207
Other services and charges	14,859	14,859	11,886	2,973	35,757
Total municipal building	<u>17,359</u>	<u>17,359</u>	<u>13,272</u>	<u>4,087</u>	<u>35,964</u>
Total general government	<u>440,791</u>	<u>440,791</u>	<u>426,710</u>	<u>14,081</u>	<u>431,966</u>

City of Arlington, Minnesota
 General Fund
 Schedule of Revenues, Expenditures and Changes in Fund Balances
 Budget and Actual (Continued)
 General Fund
 For the Year Ended December 31, 2022
 (With Comparative Actual Amounts for Year Ended December 31, 2021)

	2022				2021
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
Expenditures (Continued)					
Current (continued)					
Public safety					
Police					
Personal services	\$ 298,529	\$ 298,529	\$ 230,768	\$ 67,761	\$ 299,691
Supplies	7,700	7,700	6,127	1,573	8,433
Other services and charges	72,216	72,216	85,913	(13,697)	63,697
Total police	<u>378,445</u>	<u>378,445</u>	<u>322,808</u>	<u>55,637</u>	<u>371,821</u>
Fire					
Personal services	32,470	32,470	33,264	(794)	31,674
Civil defense					
Personal services	1,077	1,077	1,077	-	1,077
Animal control					
Other services and charges	600	600	82	518	443
Total public safety	<u>412,592</u>	<u>412,592</u>	<u>357,231</u>	<u>55,361</u>	<u>405,015</u>
Streets and highways					
Public works					
Personal services	146,825	146,825	141,874	4,951	122,920
Supplies	6,785	6,785	9,103	(2,318)	5,989
Other services and charges	121,100	121,100	125,434	(4,334)	141,442
Total public works	<u>274,710</u>	<u>274,710</u>	<u>276,411</u>	<u>(1,701)</u>	<u>270,351</u>
Street maintenance					
Supplies	29,500	29,500	50,464	(20,964)	39,875
Other services and charges	1,525	1,525	9,589	(8,064)	241
Total street maintenance	<u>31,025</u>	<u>31,025</u>	<u>60,053</u>	<u>(29,028)</u>	<u>40,116</u>
Street lighting					
Other services and charges	9,000	9,000	6,842	2,158	6,478
Total streets and highways	<u>314,735</u>	<u>314,735</u>	<u>343,306</u>	<u>(28,571)</u>	<u>316,945</u>

City of Arlington, Minnesota
General Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual (Continued)
General Fund
For the Year Ended December 31, 2022
(With Comparative Actual Amounts for Year Ended December 31, 2021)

	2022			Variance with Final Budget	2021
	Budgeted Amounts		Actual		Actual
	Original	Final	Amounts		Amounts
Expenditures (Continued)					
Current - Continued					
Culture and recreation					
Parks and recreation					
Personal services	\$ 11,782	\$ 11,782	\$ 13,944	\$ (2,162)	\$ 14,138
Supplies	8,500	8,500	14,949	(6,449)	8,616
Other services and charges	38,686	38,686	31,707	6,979	34,817
Total parks and recreation	<u>58,968</u>	<u>58,968</u>	<u>60,600</u>	<u>(1,632)</u>	<u>57,571</u>
Library					
Personal services	43,327	43,327	46,497	(3,170)	30,420
Supplies	1,350	1,350	2,392	(1,042)	1,740
Other services and charges	3,183	3,183	3,276	(93)	2,638
Total library	<u>47,860</u>	<u>47,860</u>	<u>52,165</u>	<u>(4,305)</u>	<u>34,798</u>
Total culture and recreation	<u>106,828</u>	<u>106,828</u>	<u>112,765</u>	<u>(5,937)</u>	<u>92,369</u>
Housing and economic development					
Personal services	27,515	27,515	27,452	63	26,920
Supplies	-	-	-	-	152
Other services and charges	3,120	3,120	11,059	(7,939)	2,416
Total housing and economic development	<u>30,635</u>	<u>30,635</u>	<u>38,511</u>	<u>(7,876)</u>	<u>29,488</u>
Miscellaneous					
Other services and charges	-	-	43,574	(43,574)	28,950
Total current	<u>1,305,581</u>	<u>1,305,581</u>	<u>1,322,097</u>	<u>(16,516)</u>	<u>1,304,733</u>
Capital outlay					
Public safety	-	-	-	-	877
Streets and highways	3,000	3,000	9,158	(6,158)	1,306
Culture and recreation	5,400	5,400	36,825	(31,425)	4,960
Total capital outlay	<u>8,400</u>	<u>8,400</u>	<u>45,983</u>	<u>(37,583)</u>	<u>7,143</u>
Total expenditures	<u>1,313,981</u>	<u>1,313,981</u>	<u>1,368,080</u>	<u>(54,099)</u>	<u>1,311,876</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(26,500)</u>	<u>(26,500)</u>	<u>(109,732)</u>	<u>(83,232)</u>	<u>456,689</u>
Other Financing Sources (Uses)					
Transfers in	26,500	26,500	26,500	-	26,500
Transfers out	-	-	-	-	(367,155)
Total other financing sources (uses)	<u>26,500</u>	<u>26,500</u>	<u>26,500</u>	<u>-</u>	<u>(340,655)</u>
Net Change in Fund Balances	-	-	(83,232)	(83,232)	116,034
Fund Balances, January 1	<u>1,217,640</u>	<u>1,217,640</u>	<u>1,217,640</u>	<u>-</u>	<u>1,101,606</u>
Fund Balances, December 31	<u>\$ 1,217,640</u>	<u>\$ 1,217,640</u>	<u>\$ 1,134,408</u>	<u>\$ (83,232)</u>	<u>\$ 1,217,640</u>

City of Arlington, Minnesota
Debt Service Funds
Combining Balance Sheet
December 31, 2022

	315 2012 Sinking Improvement	317 2015 Sinking Improvement	318 2017 Sinking Improvement	321 2019 Sinking Improvement
Assets				
Cash and temporary investments	\$ 24,917	\$ 252,270	\$ 368,217	\$ 327,805
Receivables				
Interest	22	250	395	356
Delinquent taxes	322	1,354	1,037	814
Special assessments	26,424	77,851	109,657	256,970
Lease	-	-	-	-
Due from other governments	8	152	827	272
	<u>8</u>	<u>152</u>	<u>827</u>	<u>272</u>
Total Assets	<u><u>\$ 51,693</u></u>	<u><u>\$ 331,877</u></u>	<u><u>\$ 480,133</u></u>	<u><u>\$ 586,217</u></u>
Deferred Inflows of Resources				
Unavailable revenue				
Property taxes	\$ 322	\$ 1,354	\$ 1,037	\$ 814
Special assessments	26,424	77,851	109,657	256,970
Deferred lease revenue	-	-	-	-
Total Deferred Inflows of Resources	<u>26,746</u>	<u>79,205</u>	<u>110,694</u>	<u>257,784</u>
Fund Balances				
Restricted				
Debt service	<u>24,947</u>	<u>252,672</u>	<u>369,439</u>	<u>328,433</u>
Total Deferred Inflows of Resources and Fund Balances	<u><u>\$ 51,693</u></u>	<u><u>\$ 331,877</u></u>	<u><u>\$ 480,133</u></u>	<u><u>\$ 586,217</u></u>

350 Ambulance Certificate 2015	351 2020 Fire Truck	360 Hospital Bond Fund	Total
\$ -	\$ 35,581	\$ -	\$ 1,008,790
-	27	-	1,050
-	554	-	4,081
-	-	-	470,902
-	-	1,064,459	1,064,459
-	47	-	1,306
<u>\$ -</u>	<u>\$ 36,209</u>	<u>\$ 1,064,459</u>	<u>\$ 2,550,588</u>
\$ -	\$ 554	\$ -	\$ 4,081
-	-	-	470,902
-	-	1,060,405	1,060,405
-	554	1,060,405	1,535,388
-	35,655	4,054	1,015,200
<u>\$ -</u>	<u>\$ 36,209</u>	<u>\$ 1,064,459</u>	<u>\$ 2,550,588</u>

City of Arlington, Minnesota
Debt Service Funds
Combining Schedule of Revenues, Expenditures
and Changes in Fund Balances
For the Year Ended December 31, 2022

	315 2012 Sinking Improvement	317 2015 Sinking Improvement	318 2017 Sinking Improvement	321 2019 Sinking Improvement
Revenues				
Taxes	\$ 4,177	\$ 75,646	\$ 59,993	\$ 56,874
Special assessments	7,885	14,111	44,588	28,773
Investment earnings (loss)	(262)	(2,893)	(4,642)	(4,137)
Miscellaneous	-	-	-	-
Total Revenues	<u>11,800</u>	<u>86,864</u>	<u>99,939</u>	<u>81,510</u>
Expenditures				
Debt service				
Principal	9,500	77,500	64,565	55,000
Interest and other charges	2,226	23,358	20,961	33,700
Total Expenditures	<u>11,726</u>	<u>100,858</u>	<u>85,526</u>	<u>88,700</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	74	(13,994)	14,413	(7,190)
Other Financing Sources (Uses)				
Transfers in	-	3,000	-	-
Net Change in Fund Balances	<u>74</u>	<u>(10,994)</u>	<u>14,413</u>	<u>(7,190)</u>
Fund Balances, January 1	24,873	263,666	355,026	335,623
Prior Period Restatement (Note 7)	-	-	-	-
Fund Balances, January 1 as Restated	<u>24,873</u>	<u>263,666</u>	<u>355,026</u>	<u>335,623</u>
Fund Balances, December 31	<u>\$ 24,947</u>	<u>\$ 252,672</u>	<u>\$ 369,439</u>	<u>\$ 328,433</u>

350 Ambulance Certificate 2015	351 2020 Fire Truck	360 Hospital Bond Fund	Total
\$ -	\$ 23,509	\$ -	\$ 220,199
-	-	-	95,357
9	(316)	-	(12,241)
-	-	275,192	275,192
<u>9</u>	<u>23,193</u>	<u>275,192</u>	<u>578,507</u>
18,000	20,000	225,000	469,565
234	3,425	46,138	130,042
<u>18,234</u>	<u>23,425</u>	<u>271,138</u>	<u>599,607</u>
(18,225)	(232)	4,054	(21,100)
<u>2,549</u>	<u>-</u>	<u>-</u>	<u>5,549</u>
<u>(15,676)</u>	<u>(232)</u>	<u>4,054</u>	<u>(15,551)</u>
15,676	35,887	1,210,000	2,240,751
-	-	(1,210,000)	(1,210,000)
<u>15,676</u>	<u>35,887</u>	<u>-</u>	<u>1,030,751</u>
<u>\$ -</u>	<u>\$ 35,655</u>	<u>\$ 4,054</u>	<u>\$ 1,015,200</u>

City of Arlington, Minnesota
 Summary Financial Report
 Revenues and Expenditures for General Operations
 Governmental Funds
 For the Years Ended December 31, 2022 and 2021

	Total 2022	Total 2021	Percent Increase (Decrease)
Revenues			
Taxes	\$ 1,017,421	\$ 983,032	3.5 %
Special assessments	148,002	135,232	9.4
Licenses and permits	47,663	78,140	(39.0)
Intergovernmental	878,745	1,072,620	(18.1)
Charges for services	814,773	851,694	(4.3)
Fines and forfeits	8,106	9,215	(12.0)
Investment earnings (loss)	(51,354)	(4,600)	(1,016.4)
Miscellaneous	396,539	208,516	90.2
	<u>\$ 3,259,895</u>	<u>\$ 3,333,849</u>	(2.2) %
Total Revenues	<u>\$ 3,259,895</u>	<u>\$ 3,333,849</u>	(2.2) %
Per Capita	\$ 1,430	\$ 1,484	(3.6) %
Expenditures			
Current			
General government	\$ 426,710	\$ 431,966	(1.2) %
Public safety	1,094,422	1,059,039	3.3
Streets and highways	343,306	316,945	8.3
Health and welfare	47,854	73,938	(35.3)
Culture and recreation	180,643	175,328	3.0
Housing and economic development	157,386	47,584	230.8
Miscellaneous	58,786	40,290	45.9
Capital outlay			
General government	5,400	-	N/A
Public safety	75,318	365,804	(79.4)
Streets and highways	171,066	179,022	(4.4)
Culture and recreation	73,122	31,205	134.3
Housing and economic development	6,489	7,799	(16.8)
Miscellaneous	-	6,027	(100.0)
Debt service			
Principal	479,565	463,030	3.6
Interest and other charges	130,042	141,690	(8.2)
	<u>\$ 3,250,109</u>	<u>\$ 3,339,667</u>	(2.7) %
Total Expenditures	<u>\$ 3,250,109</u>	<u>\$ 3,339,667</u>	(2.7) %
Per Capita	\$ 1,425	\$ 1,486	(4.1) %
Total Long-term Indebtedness	\$ 4,106,368	\$ 4,585,933	(10.5) %
Per Capita	1,801	2,041	(11.8)
General Fund Balance - December 31	\$ 1,134,408	\$ 1,217,640	(6.8) %
Per Capita	498	542	(8.1)

The purpose of this report is to provide a summary of financial information concerning the City of Arlington to interested citizens. The complete financial statements may be examined at City Hall, 204 Shamrock Drive, Arlington, Minnesota 55307. Questions about this report should be directed to the City Administrator at (507) 964-2378.

OTHER REQUIRED REPORTS

CITY OF ARLINGTON
ARLINGTON, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2022

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**INDEPENDENT AUDITOR'S REPORT
ON MINNESOTA LEGAL COMPLIANCE**

Honorable Mayor and City Council
City of Arlington, Minnesota

We have audited in accordance with auditing standards generally accepted in the United States of America, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Arlington, Minnesota (the City) as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 29, 2023.

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, and miscellaneous provisions, sections of the *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, except as described in the Schedule of Findings and Responses as item 2022-002. 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.

The City's response to the finding identified above is described in the accompanying Schedule of Findings and Responses. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.



Abdo
Mankato, Minnesota
June 29, 2023

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

Honorable Mayor and City Council
City of Arlington, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Arlington, Minnesota (the City), as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 29, 2023.

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's internal control. Accordingly, we do not express an opinion on the effectiveness of the City'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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. *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.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify one deficiency in internal controls, described in the accompanying Schedule of Findings and Responses as item 2022-001 that was considered to be a significant deficiency.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City'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 one instance of noncompliance as item 2022-002 and identified no other matters that are required to be reported under *Government Auditing Standards*.

The City's Responses to the Findings

The City's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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



Abdo
Mankato, Minnesota
June 29, 2023



City of Arlington, Minnesota
Schedule of Findings and Responses
For the Year Ended December 31, 2022

<u>Finding</u>	<u>Description</u>
2022-001	Segregation of Duties
<i>Condition:</i>	During our audit we reviewed procedures over utility billing and found the City to have limited segregation of duties over those transaction cycles.
<i>Criteria:</i>	There are four general categories of duties: authorization, custody, record keeping and reconciliation. In an ideal system, different employees perform each of these four major functions. In other words, no one person has control of two or more of these responsibilities.
<i>Effect:</i>	The existence of this limited segregation of duties increases the risk of fraud.
<i>Recommendation:</i>	While we recognize the number of staff is not large enough to eliminate this deficiency, we recommend that the City evaluate the current procedures and segregate duties where possible and implement any compensating controls. We are aware some compensating controls are in place; however, it is important that the City Council is aware of this condition and monitor all financial information.

Internal Control Over Disbursements

<i>Cause:</i>	The Deputy Clerk sets up and maintains vendors, prepares checks, mails checks to vendors and initiates wire transfers.
<i>Recommendation:</i>	We recommend that an employee other than the Deputy Clerk mail checks to vendors and initiates wire transfer.

Management Response:

The Council has already taken measures to attempt to comply even though the City is relatively small and the number of clerical/bookkeeping staff they can employ is limited and there has been a lot of turnover in the past year.

Internal Control Over Payroll

<i>Cause:</i>	The Deputy Clerk sets up employee/payroll records, runs payroll, initiates payroll transfers for direct deposit, and prepares the payroll tax returns. The Accountant/Clerk maintains/controls the check stock, maintains and posts payroll to the general ledger and reconciles the bank accounts.
<i>Recommendation:</i>	We recommend that an employee other than the Deputy Clerk initiates payroll transfers for direct deposit.

Management Response:

The Council has already taken measures to attempt to comply even though the City is relatively small and the number of clerical/bookkeeping staff they can employ is limited and there has been a lot of turnover in the past year.

City of Arlington, Minnesota
Schedule of Findings and Responses (Continued)
For the Year Ended December 31, 2022

<u>Finding</u>	<u>Description</u>
2022-001	Segregation of Duties (Continued)
<u>Internal Control Over Utility Billing</u>	
<i>Cause:</i>	The Deputy Clerk approves new utility accounts, sets up and maintains customers and rates in the system, generates and mails billing statements, prepares the deposit for the bank, makes and reviews adjustments to accounts and maintains the utility billing subledger.
<i>Recommendation:</i>	We recommend the Finance Director review exception reports from meter reading software and review any adjustments to utility receivables.
<i>Management Response:</i>	
The City has already taken measures to attempt to comply even though the City is relatively small and the number of clerical/bookkeeping staff they can employ is limited. The Council has addressed this circumstance by active participation in the City's affairs.	
<i>Updated Progress Since Prior Year:</i>	
Management has reorganized the duties of its finance department and the Deputy Clerk continues to train staff on the utility billing process with the goal of meeting proper controls as outlined in the City's internal controls matrix.	
2022-002	Long Outstanding Checks
<i>Condition:</i>	The City had 12 outstanding checks dated prior to December 31, 2018.
<i>Criteria:</i>	In accordance with Minnesota statute, section 345.41, if the City's records show unclaimed or uncashed checks or intangible property held for more than three years; the property must be reported and paid or delivered to the state Commissioner of Commerce.
<i>Effect:</i>	City staff was unaware that these checks were still outstanding.
<i>Recommendation:</i>	We recommend that the City review their list of outstanding checks each month for any being uncashed over the required time period. If a long outstanding check is found, have it delivered to the state Commissioner of Commerce.
<i>Management Response:</i>	
Management will send out follow-up inquires to the payees to remedy the finding in 2023.	