CITY OF HALLOCK
HALLOCK, MINNESOTA

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2022

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CITY OF HALLOCK
ROSTER OF CITY OFFICIALS
AS OF DECEMBER 31, 2022

Names	Office
Dave Treumer	Mayor
Naomi Larson	Council Member
Jennifer Peterson	Council Member
Michael Totleben	Council Member
Kevin Waller	Council Member
Aimee Sugden	City Clerk Administrator

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BradyMartz

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

Qualified and Unmodified Opinions

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hallock, Minnesota, 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.

Summary of Opinions

Opinion Units	Type of Opinion
Governmental Activities	Qualified
Business-Type Activities	Unmodified
General Fund	Qualified
2011 Street & Utility Fund	Unmodified
2015 Refunding Bond Fund	Unmodified
Water Fund	Unmodified
Sewer Fund	Unmodified
Gas Distribution Fund	Qualified
EDA Fund	Unmodified
Aggregate Remaining Fund Information	Unmodified

Qualified Opinion on Governmental Activities, General Fund, and Gas Distribution Fund

In our opinion, except for the effects of the matter described in the "Basis for Qualified and Unmodified Opinions" section of our report, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, general fund, and gas distribution fund of the City of Hallock as of December 31, 2022, and the changes in the financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions on Business-Type Activities, 2011 Street & Utility Fund, 2015 Refunding Bond Fund, Water Fund, Sewer Fund, EDA Fund, and Aggregate Remaining Fund Information

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Business-Type Activities, 2011 Street & Utility Fund, 2015 Refunding Bond Fund, Water Fund, Sewer Fund, EDA Fund, and Aggregate Remaining Fund Information of the City of Hallock as of December 31, 2022, and the respective changes in the financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Qualified and Unmodified Opinions

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

Matter Giving Rise to Qualified Opinion on Governmental Activities

Management has not adopted Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions* for the Hallock Fire Relief Association and Governmental Accounting Standards Board Statement No. 87, *Leases* for the City. Accounting principles generally accepted in the United States of America require that GASB Statement Nos. 68 and 87 be adopted. The amount by which this departure would affect the assets, liabilities, deferred outflows of resources, deferred inflows of resources, and net position of the Governmental Activities has not been determined.

Matter Giving Rise to Qualified Opinion on the General Fund

Management has not adopted Governmental Accounting Standards Board Statement No. 87, *Leases* for the City. Accounting principles generally accepted in the United States of America require that GASB Statement No. 87 be adopted. The amount by which this departure would affect the assets, liabilities, deferred outflows of resources, deferred inflows of resources, and net position of the General Fund has not been determined.

Matter Giving Rise to Qualified Opinion on Gas Distribution Fund

Management was unable to support the amount reported in unearned revenue. Accounting principles generally accepted in the United States of America require revenue to be recognized when services are provided. The amount by which this departure would affect the revenue, liabilities, and net position of the Gas Distribution Fund has not been determined.

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; and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information, schedules, and notes to the required supplementary information as listed in the table of contents 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.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the

Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hallock, Minnesota's basic financial statements. The combining fund financial statements and schedule of changes in fund balance and net position as listed in the table of contents as supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining fund financial statements and schedule of changes in fund balance and net position are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, except for the effects of the matter described in the "Basis for Qualified and Unmodified Opinions" section of our report, the combining fund financial statements and schedule of changes in fund balance and net position 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 included in the annual financial report. The other information comprises the City Officials but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements 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 July 27, 2023, on our consideration of the City of Hallock's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Hallock's internal control over financial reporting and compliance.

Brady Martz

BRADY, MARTZ & ASSOCIATES, P.C.
THIEF RIVER FALLS, MINNESOTA

July 27, 2023

CITY OF HALLOCK
STATEMENT OF NET POSITION
DECEMBER 31, 2022

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets:			
Cash and Cash Equivalents	$ 1,174,608	$ 1,995,578	$ 3,170,186
Accounts Receivable (Net of Allowance)	-	147,977	147,977
Taxes and Special Assessments Receivable	280,254	-	280,254
Due from Other Governments	343,421	-	343,421
Notes Receivable - Current Portion	-	11,547	11,547
Inventory	-	46,065	46,065
Prepaid Expenses	32,586	10,518	43,104
Total Current Assets	1,830,869	2,211,685	4,042,554
Non-Current Assets:			
Capital Assets:			
Nondepreciable:			
Land	607,376	83,420	690,796
Construction in Progress	16,662	-	16,662
Depreciable:			
Plant and Equipment	2,328,929	4,734,337	7,063,266
Buildings	3,023,587	-	3,023,587
Infrastructure	8,456,440	-	8,456,440
Less Accumulated Depreciation	(6,660,560)	(3,473,297)	(10,133,857)
Total Capital Assets (Net of Accumulated Depreciation)	7,772,434	1,344,460	9,116,894
Other Non-Current Assets			
Note Receivable (Net of Allowance)	-	25,081	25,081
Total Noncurrent Assets	7,772,434	1,369,541	9,141,975
Total Assets	9,603,303	3,581,226	13,184,529
DEFERRED OUTFLOWS OF RESOURCES			
Cost Sharing Defined Benefit Pension Plan	214,259	42,820	257,079
Total Deferred Outflows of Resources	214,259	42,820	257,079
LIABILITIES			
Current Liabilities:			
Accounts Payable	85,468	65,380	150,848
Accrued Wages	4,673	5,049	9,722
Sales Tax Payable	-	1,808	1,808
Unearned Revenue	-	10,324	10,324
Accrued Interest Payable	9,881	4,140	14,021
Meter Deposits Payable	-	8,252	8,252
Compensated Absences Payable - Current Portion	8,200	3,213	11,413
Bonds Payable - Current Portion	311,000	70,000	381,000
Total Current Liabilities	419,222	168,166	587,388

CITY OF HALLOCK
STATEMENT OF NET POSITION - CONTINUED
DECEMBER 31, 2022

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Non-Current Liabilities:			
Compensated Absences Payable (Net of Current)	$ 15,006	$ 27,436	$ 42,442
Net Pension Liability	401,082	129,728	530,810
Bonds Payable (Net of Current)	828,980	584,000	1,412,980
Total Non-Current	1,245,068	741,164	1,986,232
Total Liabilities	1,664,290	909,330	2,573,620
DEFERRED INFLOWS OF RESOURCES			
Cost Sharing Defined Benefit Pension Plan	10,391	3,821	14,212
Total Deferred Inflows of Resources	10,391	3,821	14,212
NET POSITION			
Net Investment in Capital Assets	6,632,454	690,460	7,322,914
Restricted For Debt Service	663,362	-	663,362
Restricted For Small Cities Grants	62,722	-	62,722
Restricted For Development	2,457		2,457
Restricted for Revolving Loan Funds	-	42,308	42,308
Unrestricted	781,886	1,978,127	2,760,013
Total Net Position	$ 8,142,881	$ 2,710,895	$ 10,853,776

See Notes to the Financial Statements

CITY OF HALLOCK
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2022

		Program Revenues			Net (Expense) Revenue and Changes in Net Position — Primary Government		
Functions/Programs	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**	**Governmental Activities**	**Business-type Activities**	**Total**
Primary Government:							
Governmental Activities:							
General Government	$ 316,234	$ 6,615	$ 102,149	$ 29,295	$ (178,175)	$ -	$ (178,175)
Public Safety	215,667	46,760	21,197	-	(147,710)	-	(147,710)
Public Works	484,638	-	-	25,118	(459,520)	-	(459,520)
Culture and Recreation	192,788	80,799	-	-	(111,989)	-	(111,989)
Community Development	576	-	9,775	-	9,199	-	9,199
Airport	244,556	44,592	25,436	25,313	(149,215)	-	(149,215)
Interest and Fees	27,013	-	-	-	(27,013)	-	(27,013)
Total Governmental Activities	1,481,472	178,766	158,557	79,726	(1,064,423)	-	(1,064,423)
Business-type Activities:							
Water	247,269	264,275	-	-	-	17,006	17,006
Sewer	91,172	135,512	-	-	-	44,340	44,340
Gas Distribution	566,464	665,479	-	-	-	99,015	99,015
EDA	19,300	-	-	-	-	(19,300)	(19,300)
Total Business-type Activities	924,205	1,065,266	-	-	-	141,061	141,061
Total Primary Government	$ 2,405,677	$ 1,244,032	$ 158,557	$ 79,726	(1,064,423)	141,061	(923,362)
General Revenues:							
Property Taxes					536,553	-	536,553
Unrestricted State Aid					424,749	-	424,749
Other Revenues					120,467	-	120,467
Unrestricted Investment Earnings					43,943	1,233	45,176
Gain on the Sale of Capital Asset					29,475	-	29,475
Transfers					(20,800)	20,800	-
Total General Revenues and Transfers					1,134,387	22,033	1,156,420
Change in Net Position					69,964	163,094	233,058
Net Position - Beginning					8,072,917	2,547,801	10,620,718
Net Position - Ending					$ 8,142,881	$ 2,710,895	$ 10,853,776

See Notes to the Financial Statements

CITY OF HALLOCK
BALANCE SHEET – GOVERNMENTAL FUNDS
DECEMBER 31, 2022

	General	2011 Street & Utility	2015 Refunding Bond	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and Cash Equivalents	$ 700,639	$ 102,053	$ 259,551	$ 112,365	$ 1,174,608
Prepaid Insurance	32,586	-	-	-	32,586
Taxes Receivable	15,800	4,600	6,500	2,200	29,100
Special Assessments Receivable	-	24,183	226,971	-	251,154
Due from Other Governments	343,421	-	-	-	343,421
TOTAL ASSETS	$ 1,092,446	$ 130,836	$ 493,022	$ 114,565	$ 1,830,869
LIABILITIES					
Accounts Payable	$ 85,468	$ -	$ -	$ -	$ 85,468
Accrued Wages	4,673	-	-	-	4,673
Total Liabilities	90,141	-	-	-	90,141
DEFERRED INFLOWS OF RESOURCES					
Unavailable Revenue - Special Assessments and Taxes	15,800	28,783	233,471	2,200	280,254
Total Deferred Inflows of Resources	15,800	28,783	233,471	2,200	280,254
FUND BALANCES					
Nonspendable	32,586	-	-	-	32,586
Restricted for Debt Service	-	102,053	259,551	47,186	408,790
Restricted for Small Cities Grant	-	-	-	62,722	62,722
Restricted for Development	-	-	-	2,457	2,457
Committed for Commercial Apron Extension	2,650	-	-	-	2,650
Assigned for Library	49,129	-	-	-	49,129
Assigned for Street Supplies and Maintenance	103,486	-	-	-	103,486
Assigned for Downtown Development	1,360	-	-	-	1,360
Unassigned	797,294	-	-	-	797,294
Total Fund Balances	986,505	102,053	259,551	112,365	1,460,474
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	$ 1,092,446	$ 130,836	$ 493,022	$ 114,565	$ 1,830,869

See Notes to the Financial Statements

CITY OF HALLOCK
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO NET POSITION – GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2022

Total Governmental Funds Balance		$ 1,460,474
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore not reported in the governmental funds.		
Capital Assets	14,432,994	
Accumulated Depreciation	(6,660,560)	7,772,434
Other long-term assets are not available to pay for current-period expenditures and therefore are unavailable in the governmental funds.		
Special Assessments and Property Taxes		280,254
Net deferred outflows/(inflows) of resources relating to the cost sharing defined benefit plan in the governmental activities are not financial resources and, therefore, are not reported as deferred outflows (inflows) of resources in the governmental funds.		
Deferred Outflows of Resources	214,259	
Deferred Inflows of Resources	(10,391)	203,868
Long-term liabilities not due and payable in the current period and therefore are not included in the governmental funds:		
Bonds Payable, Net	(1,139,980)	
Net Pension Liability	(401,082)	
Compensated Absences	(23,206)	
Interest Payable	(9,881)	(1,574,149)
Net Position of Governmental Activities		$ 8,142,881

See Notes to the Financial Statements

CITY OF HALLOCK
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2022

	General	2011 Street & Utility	2015 Refunding Bond	Other Governmental Funds	Total Governmental Funds
REVENUES					
Property Taxes	$ 286,020	$ 90,072	$ 113,466	$ 44,896	$ 534,454
Special Assessments	-	56,901	50,016	-	106,917
Intergovernmental Revenue - Federal	129,944	-	-	-	129,944
Intergovernmental Revenue - State	523,313	-	-	-	523,313
Intergovernmental Revenue - Local	9,775	-	-	-	9,775
Charges for Services	171,758	-	-	-	171,758
Interest Earnings	25,238	-	-	-	25,238
Other Revenue	107,901	-	-	19,570	127,471
Total Revenues	1,253,949	146,973	163,482	64,466	1,628,870
EXPENDITURES					
Current:					
General Government	195,597	-	-	-	195,597
Public Safety	171,494	-	-	-	171,494
Public Works	255,658	-	-	-	255,658
Culture and Recreation	197,081	-	-	-	197,081
Community Development	530	-	-	46	576
Airport	59,372	-	-	-	59,372
Capital Outlay	214,028	-	-	-	214,028
Debt Service					
Principal Retirement	-	170,000	150,000	35,000	355,000
Interest and Fees	-	9,130	19,548	4,687	33,365
Total Expenditures	1,093,760	179,130	169,548	39,733	1,482,171
Excess of Revenues Over (Under) Expenditures	160,189	(32,157)	(6,066)	24,733	146,699
Other Financing Sources (Uses)					
Transfer Out	(35,282)	-	-	-	(35,282)
Transfer In	-	-	-	14,482	14,482
Sale of Capital Assets	30,000	-	-	-	30,000
Total Other Financing Sources (Uses)	(5,282)	-	-	14,482	9,200
Net Change in Fund Balance	154,907	(32,157)	(6,066)	39,215	155,899
Fund Balances - Beginning	831,598	134,210	265,617	73,150	1,304,575
Fund Balances - Ending	$ 986,505	$ 102,053	$ 259,551	$ 112,365	$ 1,460,474

CITY OF HALLOCK
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2022

Net Change in Fund Balance - Total Governmental Funds	$ 155,899
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.	
Capital Outlay	55,878
Current Year Depreciation	(405,086)
The net effect of various capital asset transactions decreases net position.	(525)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.	
Special Assessments and Property Taxes	(86,112)
Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.	355,000
Amortize Bond Premium	1,997
Change in net pension liability	(266,824)
Change in deferred outflows and inflows of resources related to the net pension liability	261,920
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds:	
Compensated Absences	(5,608)
Interest Payable	3,425
Changes in Net Position	$ 69,964

See Notes to the Financial Statements

CITY OF HALLOCK
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2022

	Business-type Activities - Enterprise Funds				
	Water	Sewer	Gas Distribution	EDA	Total
ASSETS					
Current Assets:					
Cash and Cash Equivalents	$ 179,748	$ 409,874	$ 1,405,956	$ -	$ 1,995,578
Accounts Receivable (Net of Allowance for Uncollectibles)	33,394	22,280	92,303	-	147,977
Inventories	18,730	3,509	23,826	-	46,065
Note Receivable - Current Portion	-	-	-	11,547	11,547
Due from Other Funds	-	-	12,400	-	12,400
Prepaid Insurance	3,361	3,212	3,945	-	10,518
Total Current Assets	235,233	438,875	1,538,430	11,547	2,224,085
Non-current Assets:					
Note Receivable (Net of Allowance)	-	-	-	25,081	25,081
Capital Assets:					
Land	2,142	33,490	47,788	-	83,420
Plant and Equipment	2,021,381	1,859,905	827,125	25,926	4,734,337
Less Accumulated Depreciation	(1,493,332)	(1,268,360)	(685,679)	(25,926)	(3,473,297)
Total Capital Assets (Net of Accumulated Depreciation)	530,191	625,035	189,234	-	1,344,460
Total Non-current Assets	530,191	625,035	189,234	25,081	1,369,541
Total Assets	765,424	1,063,910	1,727,664	36,628	3,593,626
DEFERRED OUTFLOWS OF RESOURCES					
Cost Sharing Defined Benefit Pension Plan	4,078	4,078	34,664	-	42,820
Total Deferred Outflows of Resources	4,078	4,078	34,664	-	42,820
LIABILITIES					
Current Liabilities:					
Accounts Payable	9,282	656	55,442	-	65,380
Accrued Wages	533	508	4,008	-	5,049
Sales Tax Payable	-	-	1,808	-	1,808
Unearned Revenue	-	-	10,324	-	10,324
Accrued Interest Payable	2,504	1,636	-	-	4,140
Meter Deposits Payable	-	-	8,252	-	8,252
Due to Other Funds	-	-	-	12,400	12,400
Accrued Compensated Absences - Current Portion	359	342	2,512	-	3,213
Bonds Payable - Current Portion	45,000	25,000	-	-	70,000
Total Current Liabilities	57,678	28,142	82,346	12,400	180,566
Non-current Liabilities:					
Accrued Compensated Absences (Net of Current)	3,893	3,702	19,841	-	27,436
Net Pension Liability	12,355	12,354	105,019	-	129,728
Bonds Payable (Net of Current)	230,000	354,000	-	-	584,000
Total Non-current Liabilities	246,248	370,056	124,860	-	741,164
Total Liabilities	303,926	398,198	207,206	12,400	921,730
DEFERRED INFLOWS OF RESOURCES					
Cost Sharing Defined Benefit Pension Plan	364	364	3,093	-	3,821
Total Deferred Inflows of Resources	364	364	3,093	-	3,821
NET POSITION					
Net Investment in Capital Assets	255,191	246,035	189,234	-	690,460
Restricted for Revolving Loan Funds	-	-	-	42,308	42,308
Unrestricted	210,021	423,391	1,362,795	(18,080)	1,978,127
Total Net Position	$ 465,212	$ 669,426	$ 1,552,029	$ 24,228	$ 2,710,895

See Notes to the Financial Statements

CITY OF HALLOCK
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2022

	Business-type Activities - Enterprise Funds				
	Water	Sewer	Gas Distribution	EDA	Total
Operating Revenues:					
Water Sales	$ 264,275	$ -	$ -	$ -	$ 264,275
Sewer Charges	-	134,621	-	-	134,621
Gas Sales	-	-	665,479	-	665,479
Other	-	891	-	-	891
Total Operating Revenues	264,275	135,512	665,479	-	1,065,266
Operating Expenses:					
Production:					
Purchases	106,616	-	360,326	-	466,942
Repairs and Maintenance	4,993	2,727	2,838	-	10,558
Economic Development	-	-	-	19,300	19,300
Supplies and small tools	8,180	3,097	3,918	-	15,195
Depreciation	63,302	39,666	15,346	-	118,314
Total	183,091	45,490	382,428	19,300	630,309
Distribution:					
Labor	16,036	15,756	113,028	-	144,820
Utilities	14,811	6,387	6,384	-	27,582
Total	30,847	22,143	119,412	-	172,402
Administration:					
Payroll Benefits	8,616	8,987	47,229	-	64,832
Insurance	3,130	1,968	4,266	-	9,364
Telephone	330	-	-	-	330
Office Supplies	300	-	10,111	-	10,411
Training and Travel	-	-	2,147	-	2,147
Professional Fees	14,420	8,507	871	-	23,798
Total	26,796	19,462	64,624	-	110,882
Total Operating Expenses	240,734	87,095	566,464	19,300	913,593
Operating Income (Loss)	23,541	48,417	99,015	(19,300)	151,673
Non-Operating Revenues (Expenses):					
Interest Income	-	-	466	767	1,233
Interest Expense	(6,535)	(4,077)	-	-	(10,612)
Total Non-Operating Revenue (Expenses)	(6,535)	(4,077)	466	767	(9,379)
Net Income before Transfers	17,006	44,340	99,481	(18,533)	142,294
Transfer In	-	-	-	20,800	20,800
Changes in Net Position	17,006	44,340	99,481	2,267	163,094
Total Net Position - Beginning	448,206	625,086	1,452,548	21,961	2,547,801
Total Net Position - Ending	$ 465,212	$ 669,426	$ 1,552,029	$ 24,228	$ 2,710,895

See Notes to the Financial Statements

CITY OF HALLOCK
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2022

	Business-type Activities - Enterprise Funds				
	Water	**Sewer**	**Gas Distribution**	**EDA**	**Total**
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from Customers and Users	$ 258,101	$ 132,137	$ 643,913	$ 19,912	$ 1,054,063
Payments for Economic Development	-	-	-	(20,500)	(20,500)
Payments to Suppliers	(150,293)	(22,959)	(392,021)	-	(565,273)
Payments to Employees	(22,604)	(22,789)	(154,074)	-	(199,467)
Net Cash Provided by Operating Activities	85,204	86,389	97,818	(588)	268,823
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Transfers from Other Funds	-	-	-	20,800	20,800
Change in Due To/From Other Funds	-	-	20,979	(20,979)	-
Net Cash Provided (Used) by Capital and Related Financing Activities	-	-	20,979	(179)	20,800
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Acquisition of Capital Assets	(13,804)	-	-	-	(13,804)
Principal Payment on Bonds Payable	(45,000)	(25,000)	-	-	(70,000)
Interest Paid on Bonds Payable	(6,910)	(4,186)	-	-	(11,096)
Net Cash Used by Capital and Related Financing Activities	(65,714)	(29,186)	-	-	(94,900)
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest Income	-	-	466	767	1,233
Net Cash Provided by Investing Activities	-	-	466	767	1,233
Net Increase in Cash and Cash Equivalents	19,490	57,203	119,263	-	195,956
Cash and Cash Equivalents, January 1	160,258	352,671	1,286,693	-	1,799,622
Cash and Cash Equivalents, December 31	$ 179,748	$ 409,874	$ 1,405,956	$ -	$ 1,995,578
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:					
Operating Income (Loss)	$ 23,541	$ 48,417	$ 99,015	$ (19,300)	$ 151,673
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:					
Depreciation Expense	63,302	39,666	15,346	-	118,314
Changes in Assets and Liabilities:					
Utility Billings Receivable	(6,174)	(3,375)	(9,366)	-	(18,915)
Inventory	3,160	193	(3,655)	-	(302)
Prepaid Insurance	480	(25)	32	-	487
Notes Receivable	-	-	-	18,712	18,712
Deferred Pension Outflows	939	940	7,979	-	9,858
Accounts Payable	(1,153)	(441)	7,973	-	6,379
Accrued Wages	8	7	151	-	166
Sales Tax Payable	-	-	(5,510)	-	(5,510)
Unearned Revenue	-	-	(12,087)	-	(12,087)
Net Pension Liability	5,864	5,864	49,845	-	61,573
Deferred Pension Inflows	(6,626)	(6,626)	(56,324)	-	(69,576)
Compensated Absences	1,863	1,769	4,532	-	8,164
Meter Deposits Payable	-	-	(113)	-	(113)
Net Cash Provided by Operating Activities	$ 85,204	$ 86,389	$ 97,818	$ (588)	$ 268,823

See Notes to the Financial Statements

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Hallock operates under a City Council form of government. The financial statements of the City of Hallock have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

A. Reporting Entity

The City's policy is to include all funds, organizations, institutions, agencies, departments, and offices over which the Council exercises significant influence over and/or is financially accountable, or the organizations for which the nature and significance of their relationships with the City is such that exclusion would cause the City's financial statements to be misleading. The criteria used to determine if the primary government is financially accountable for a component unit includes whether or not the primary government appoints the voting majority of the potential component unit's governing body, is able to impose its will on the potential component unit, or is fiscally dependent upon the potential component unit.

Based on these criteria, the Hallock Economic Development Authority has been included in the City's financial statements as a blended component unit.

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 non-fiduciary activities of the City. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. 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, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not included among program revenues are reported 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.

C. Fund Accounting

The accounts of the City are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts, which comprise its assets, liabilities, reserves, fund balance/net position, revenues, and expenditures or expenses, as appropriate. The City has the following funds:

1) Governmental Fund Types

Governmental fund types are those funds through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used; current liabilities are assigned to the fund from which they are paid; and the difference between governmental fund assets, deferred inflows of resources, and liabilities, the fund equity, is referred to as "fund balance." The measurement focus is upon determination of changes in financial position, rather than upon net income determination. The following comprise the City's major governmental funds:

a) General Fund — The General Fund is the general operating fund of the City. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. Many of the more important activities of the City, including operation of the City's general service departments such as public safety, are accounted for in this fund.

b) 2011 Street & Utility Debt Service Fund — This fund accounts for receipt of property taxes and special assessments used for the payment of bond principal, interest and fees.

c) 2015 Refunding Bond – This fund accounts for receipt of property taxes and special assessments used for the payment of bond principal, interest and fees.

The other governmental funds of the City are considered nonmajor.

2) Proprietary Fund Types

Proprietary fund types are used to account for a government's ongoing organizations and activities, which are similar to those often found in the private sector. The measurement focus is upon income determination, financial position, and cash flows.

Enterprise funds are used to finance and account for the acquisition, operation, and maintenance of the City's facilities and services, which are supported primarily by user charges. The following comprise the City's major enterprise funds:

a) Water Fund — To account for the operation and maintenance of the City's Water Utility.

b) Sewer System Fund — To account for the operation and maintenance of the City's Sanitary Sewer System.

c) Gas Distribution Fund — To account for the operation and maintenance of the City's Gas Utility.

d) EDA Fund — This fund does not meet criteria to be a major fund, however, management has elected to report it as a major fund. The fund accounts for the operation of the City's Economic Development Authority.

D. Measurement Focus and Basis of Accounting

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.

In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of these revenues. In one, monies must be expended on the specific purpose or project before any amounts will be paid to the City; therefore, revenues are recognized based upon the expenditures recorded and the availability criteria. In the other, monies are virtually unrestricted as to purpose of expenditure, and are usually revocable only for failure to comply with prescribed requirements. These resources are reflected as revenues at the time of receipt, or earlier if the susceptible to accrual criteria is met.

Licenses and permits, fines and forfeitures, charges for sales and services (other than utility), and miscellaneous revenues are generally recorded as revenue when received in cash, because they are generally not measurable until actually received. In the category of use of money and property, property rentals are recorded as revenue when received in cash, but investment earnings are recorded as earned, since they are measurable and available.

Property taxes are recognized as a receivable at the time an enforceable legal claim is established. Property taxes are considered available if received within 60 days of year-end.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

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. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

E. Budgets

The City submits a proposed budget and levy to the County Auditor’s office by September 15. The Truth in Taxation public hearings are held in December. The City must prepare a final budget and certify the levy to the County by December 31. A copy of the final budget and prior year revenue and expenditures must be submitted to the State Auditor’s office.

F. Cash and Cash Equivalents

The City’s cash and cash equivalents are considered to be cash on hand, demand deposits, and investments with original maturities of three months or less.

G. Capital Assets

Capital assets, including land, buildings, improvements, infrastructure, and equipment assets are reported in the applicable governmental or business - type activities columns in the government-wide financial statements. Capital assets are defined by the City of Hallock as assets with an initial, individual cost of more than $2,500 and an initial useful life of one year or greater. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Buildings, improvements, infrastructure and equipment assets are depreciated using the straight-line method of depreciation over the following estimated useful lives:

Estimated useful lives using straight-line depreciation:	
Buildings	20-60 Years
Plant and Equipment	10-50 Years
Infrastructure	40 Years

The City's collection of library books and other similar assets are not capitalized. These collections are unencumbered, held for public exhibition and education, protected, cared for and preserved and subject to City policy that requires proceeds from the sale of these items to be used to acquire other collection items.

H. Investments

Investments are carried at fair value. The City considers certificates of deposit to be cash.

When fair value measurements are required, various data is used in determining those values. Assets and liabilities that are carried at fair value must be classified and disclosed in the following levels based on the nature of the data used.

Level 1: Quoted market prices in active markets for identical assets or liabilities.
Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.
Level 3: Unobservable market inputs that are not corroborated by market data.

I. Taxes and Special Assessments Receivable

Property tax levies are set by the City Council in October each year and are certified to the county for collection the following year. In Minnesota, counties act as collection agents for all property taxes.

The county spreads the levies over all taxable property in the City. Such taxes become receivables of the City as of January 1.

Property taxes are payable in equal installments by property owners to the county as follows: Personal Property - February 28 and June 30; and Real Property - May 15 and October 15.

The county remits the collections to the City and other taxing districts three times a year, in January, July and December.

Unpaid taxes at December 31 become liens on the respective property and are classified in the financial statements as taxes receivable. The receivable is fully offset by deferred revenue as it is not available to finance current expenditures.

Special assessments are levied against the benefited properties for the assessable costs of special assessment improvement projects in accordance with Minnesota Statutes. The City usually adopts the assessment rolls when the individual projects are complete or substantially complete. The assessments are collectible over a term of years generally consistent with the term of years of the related bond issue.

Collection of annual installments (including interest) is handled by the county in the same manner as property taxes. Property owners are allowed to prepay total future installments without interest or prepayment penalties.

Special assessments receivable includes the following components:

<u>Unremitted</u> - Amounts collected by Kittson County and not remitted to the City.
<u>Delinquent</u> - Amounts billed to property owners but not paid.
<u>Deferred</u> - Assessment installments which will be billed to property owners in future years.

J. Utility Billings Receivable

Utility billings receivables are carried at the original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Utility billings receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received. A utility billing receivable is considered to be past due if any portion of the receivable balance is outstanding for more than 30 days. The provision for uncollectible accounts was $23,393 as of December 31, 2022.

K. Inventories

Inventories are stated at the lower of cost or market and consist of consumable supplies. The cost of these supplies is recorded as an expense at the time they are relieved from inventory for use. Inventories are determined by actual count and priced on the first-in, first-out basis.

L. Interfund Transactions

Transactions among City funds that would be treated as revenues and expenditures or expenses if they involved organizations external to City government are accounted for as revenues and expenditures or expenses in the funds involved.

Transactions, which constitute reimbursements to a fund for expenditures initially made from it, which are properly applicable to another fund, are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the reimbursed fund.

Transactions, which constitute the transfer of resources from a fund receiving revenues to a fund through which the revenues are to be expended, are separately reported in the respective funds' operating statements.

Activity between funds that are representative of lending/borrowing arrangements at the end of the fiscal year are referred to as "due to/from other funds" or "advances 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."

Non-current portions of long-term interfund loan receivables are reported as advances within the Governmental Funds and are offset equally by a fund balance reserve account which indicates that they do not constitute expendable available financial resources, and therefore, are not available for appropriation.

M. Accounts Payable

Accounts payable consists of amounts on open accounts owing to individuals, companies, or organizations for goods and services received prior to December 31, but paid for subsequent to that date.

N. 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 deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed 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 uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

O. Compensated Absences

City employees accumulate vacation leave hours for subsequent use or for payment upon termination, death or retirement. Vacation leave is payable when used, or upon death or retirement. If paid upon death or retirement, the total accumulated hours are paid at the then effective hourly rate for that employee, with a maximum of 30 days per employee. Employees are also allowed to accumulate up to 120 days of sick leave with 42 percent of those days vested after 15 years of employment.

For Proprietary Fund types, these accumulations are recorded as expenses and liabilities of the appropriate fund in the fiscal year earned. For Governmental Fund types, the amount of accumulated unpaid vacation and sick leave, which is payable from available resources, is recorded as a liability of the respective fund only if they have matured, for example, as a result of employee retirements and resignations.

P. Deferred Outflows/Inflows 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 resource (expense/expenditure) until then. The City has one item that qualifies for reporting in this category named *Cost Sharing Defined Benefit Pension Plan* which represents actuarial differences within PERA pension plans as well as amounts paid to the plans after the measure date.

In addition to liabilities, the statement of net position 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 City has two types of items that qualify for reporting in this category, one of which arises only under a modified accrual basis of accounting. Accordingly, the item, *unearned revenue – special assessments and taxes* is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from one source, special assessments and taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The City also has one item reported on the statement of net position as *cost sharing defined benefit pension plan*, which represents actuarial differences within the PERA pension plan.

Q. 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.

R. Fund Balance

In the fund financial statements, governmental funds report fund balance in classifications that disclose constraints for which amounts in those funds can be spent. These classifications are as follows:

Nonspendable – consists of amounts that are not in spendable form, such as inventory and prepaid items.

Restricted – consists of amounts related to externally imposed constraints established by creditors, grantors or contributors; or constraints imposed by law through constitutional provisions or enabling legislation.

Committed – consists of internally imposed constraints. These constraints are established by formal action of the City Council.

Assigned – consists of internally imposed constraints. These constraints reflect the specific purpose for which it is the City's intended use. These constraints are established by the City Council. Pursuant to Council resolution, the City's Clerk-Treasurer is authorized to establish assignments of fund balance.

Unassigned – is the residual classification for the general fund and also reflects negative residual amounts in other funds.

When both restricted and unrestricted resources are available for use, it is the City's policy to first use restricted resources, and then use unrestricted resources as they are needed.

When committed, assigned or unassigned resources are available for use, it is the City's policy to use resources in the following order; 1) committed, 2) assigned and 3) unassigned.

S. Net Position

Net position represents the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources in the City's financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any long-term debt attributable to the acquisition, construction, or improvement of those assets. Restricted Net Position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Unrestricted Net Position is the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Net Position Flow Assumption – Sometimes the government will fund outlays for a particular purpose for both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

T. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Ultimate results could differ from those estimates.

NOTE 2. DEPOSITS

Credit Risk

The City may invest idle funds as authorized in Minnesota Statutes, as follows:

(a) Direct obligations or obligations guaranteed or insured issued by the United States, its agencies, its instrumentalities, or organizations created by an act of Congress.
(b) General obligations and revenue obligations of any state or local government with taxing powers rated "A" and "AA", respectively, and general obligations of the Minnesota Housing Finance Agency which is a moral obligation of the State of Minnesota and rated "A" or better.
(c) Commercial paper issued by United States corporations or their Canadian subsidiaries, rated in the highest quality by at least two rating agencies, and maturing in 270 days or less.
(d) Time deposits that are fully insured by the FDIC or bankers acceptances of U.S. banks.
(e) Shares of investment companies registered under the Federal Investment Company Act of 1940 and whose only investments are in securities described in (a) above.
(f) Repurchase or reverse repurchase agreements with banks that are qualified as a "depository" of public funds of the government entity, any other financial institution which is a member 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.
(g) Guaranteed investment contracts (GIC's) issued or guaranteed by United States commercial banks or domestic branches of foreign banks or United States insurance companies if similar debt obligations of the issuer or the collateral pledged by the issuer is in the top two rating categories, or in the top three rating categories for long-term GIC's issued by Minnesota banks.
(h) Securities lending agreements with financial institutions having its principal executive office in Minnesota and meeting the qualifications described in (f) above.

Custodial Credit Risk – Deposits

The City does not have a formal custodial credit risk policy. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. Minnesota Statutes require that all City deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds. The City was not exposed to custodial risk as of December 31, 2022.

Concentration of Credit Risk

The City places no limit on the amount the City may invest in any one issuer.

Interest income on cash and investments was $26,471 for the year ended December 31, 2022.

NOTE 3. NOTES RECEIVABLE

The City has notes receivable from various businesses and organizations at December 31, 2022, as follows:

	Due Dates	Interest Rates	Balance	
Economic Development Loans				
Regular Loans	2023-2028	1.0 - 2.0%	$ 36,628	
Deferred Loans	2023-2026	0%	25,131	*
			$ 61,759	

* Deferred loans, of which 20% is forgivable each year for five years. If all conditions are satisfied under the terms and conditions of the lending agreement, the money shall become the sole property of the organization.

The provision for uncollectible was $25,131.

NOTE 4. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The City had the following due to/from other funds at December 31, 2022:

Receivable Fund	Payable Fund	Amount
Gas Distribution Fund	EDA Fund	$ 12,400

The purpose of the interfund loan is to cover cash deficit at year-end.

Interfund Transfers:

Transfer In	Transfer Out	Amount
EDA Fund	General Fund	$ 20,800
Non Major Governmental Fund	General Fund	14,482
		$ 35,282

The purpose of the transfer was to replenish the EDA and Small Cities Grant funds.

NOTE 5. CAPITAL ASSETS

The following is a summary of capital asset activity for the year ended December 31, 2022:

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, Non-Depreciable:				
Land	$ 607,376	$ -	$ -	$ 607,376
Construction in Progress	2,438,821	16,662	2,438,821	16,662
Total	3,046,197	16,662	2,438,821	624,038
Capital Assets, Depreciable:				
Buildings	3,023,587	-	-	3,023,587
Equipment	2,350,750	39,216	61,037	2,328,929
Infrastructure	6,017,619	2,438,821	-	8,456,440
Total	11,391,956	2,478,037	61,037	13,808,956
Less Accumulated Depreciation for:				
Buildings	(1,158,644)	(101,268)	-	(1,259,912)
Equipment	(1,296,299)	(98,119)	60,512	(1,333,906)
Infrastructure	(3,861,043)	(205,699)	-	(4,066,742)
Total Accumulated Depreciation	(6,315,986)	(405,086)	60,512	(6,660,560)
Total Capital Assets, Depreciable, Net	5,075,970	2,072,951	525	7,148,396
Governmental Activities Capital Assets, Net	$ 8,122,167	$ 2,089,613	$ 2,439,346	$ 7,772,434

Depreciation expense was charged to government functions as follows:

General Government	$ 15,881
Public Safety	51,882
Public Works	174,270
Culture and Recreation	12,350
Airport	150,703
	$ 405,086

Business-type Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, Non-Depreciable:				
Land	$ 83,420	$ -	$ -	$ 83,420
Capital Assets, Depreciable:				
Plant and Equipment	4,760,795	13,804	40,262	4,734,337
Total	4,760,795	13,804	40,262	4,734,337
Less Accumulated Depreciation for:				
Plant and Equipment	(3,395,245)	(118,314)	40,262	(3,473,297)
Total Accumulated Depreciation	(3,395,245)	(118,314)	40,262	(3,473,297)
Total Capital Assets, Depreciable, Net	1,365,550	(104,510)	80,524	1,261,040
Business-Type Activities Capital Assets, Net	$ 1,448,970	$ (104,510)	$ 80,524	$ 1,344,460

Depreciation expense was charged to business-type funds as follows:

Water Fund	$ 63,302
Sewer Fund	39,666
Gas Distribution Fund	15,346
	$ 118,314

NOTE 6. LONG-TERM DEBT

General Obligation Bonds. The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for governmental activities. The original amount of general obligation bonds issued in prior years was $3,532,000.

General obligation bonds are direct obligations and pledge the full faith and credit of the City. The general obligations issued for General Government are payable from the debt service funds primarily through special assessments and property taxes levied and collected. General obligation bonds currently outstanding are as follows:

Purpose	Interest Rates	Amount
Governmental Activities	1.3 – 2.5%	$ 188,000
Governmental Activities – Refunding	2.0 – 3.2%	940,000

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

Year Ending	Governmental Activities	
December 31	Principal	Interest
2023	$ 311,000	$ 23,715
2024	242,000	16,926
2025	188,000	11,875
2026	153,000	7,913
2027	164,000	3,997
2028	70,000	962
	$1,128,000	$ 65,388

General Obligation Revenue Bonds. The City issues general obligation revenue bonds to provide funds for the acquisition and construction of major capital facilities. General obligation revenue bonds have been issued for business-type activities. The original amount of general obligation bonds issued in prior years was $956,338.

The City pledges income derived from the acquired or constructed assets to pay debt service. General obligation revenue bonds are direct obligations and pledge the full faith and credit of the City. General obligation revenue bonds currently outstanding are as follows:

Purpose	Interest Rates	Amount
Business-type Activities	1.0%	$ 379,000
Business-type Activities - Refunding	2.0 – 2.8%	275,000

Annual debt service requirements to maturity for general obligation utility revenue bonds are as follows:

Year Ending	Business-Type Activities	
December 31	Principal	Interest
2023	$ 70,000	$ 9,936
2024	66,000	8,807
2025	71,000	7,623
2026	71,000	6,319
2027	76,000	4,871
2028-2032	186,000	10,841
2033-2036	114,000	2,973
	$ 654,000	$ 51,370

The City has pledged $296,265 and $409,105 of future water and sewer revenue, respectively, for water and sewer upgrades. The Water and Sewer Funds had net income, excluding depreciation and interest expense of $86,843 and $88,083 respectively, that exceeded the annual payments from the pledged revenue for debt of $51,910 and $29,186, respectively.

Changes in Long-Term Liabilities. Long-term liability activity for the year ended December 31, 2022, was as follows:

	Balance 12/31/2021	Additions	Reductions	Balance 12/31/2022	Due Within One Year
Governmental Activities:					
2011 G.O. Refunding Bonds	$ 360,000	$ -	$ (170,000)	$ 190,000	$ 130,000
2015 G.O. Refunding Bonds	900,000	-	(150,000)	750,000	145,000
2015 G.O. Premium	13,977	-	(1,997)	11,980	1,997
2016 G.O. Capital Improvement Bond	223,000	-	(35,000)	188,000	36,000
Compensated Absences	17,598	5,608	-	23,206	8,200
Governmental Activities Total	$1,514,575	$ 5,608	$ (356,997)	$1,163,186	$ 321,197
Business-Type Activities:					
2015 G.O. Refunding Bonds	$ 320,000	$ -	$ (45,000)	$ 275,000	$ 45,000
2016 G.O. Sewer Revenue Bond	404,000	-	(25,000)	379,000	25,000
Compensated Absences	22,485	8,163	-	30,648	3,213
Business-Type Activities Total	$ 746,485	$ 8,163	$ (70,000)	$ 684,648	$ 73,213

For the governmental activities, compensated absences are generally liquidated by the General Fund.

NOTE 7. CONTINGENT LIABILITIES

Amounts received or receivable from grantor 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 government expects such amounts, if any, to be immaterial.

NOTE 8. 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.

The City of Hallock carries commercial insurance for all other risks of loss, including employees' health and accident insurance.

Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

NOTE 9. DEFINED BENEFIT PENSION PLANS

The financial statements of the City of Hallock have been prepared in accordance with accounting principles generally accepted in the United States of America as described in Note 1. This note disclosure includes the proportionate share of the net pension liability, deferred inflows of resources, and deferred outflows of resources for both governmental and proprietary funds.

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

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

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

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

General Employees Plan Benefits
General Employees Plan benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for Coordinated members is 1.2 percent for each of the first 10 years and 1.7 percent for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7 percent for all years of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

Benefit increases are provided to benefit recipients each January. The postretirement increase is equal to 50 percent of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1 percent and a maximum of 1.5 percent. Recipients that have been receiving the annuity or benefit for at least a full year as of 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 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.

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

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 June 30 before the effective date of the increase will receive the full increase. Recipients receiving the annuity or benefit for at least 25 months but less than 36 months as of June 30 before the effective date of the increase will receive a reduced prorated increase.

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% of their annual covered salary in fiscal year 2022 and the City was required to contribute 7.50% for Coordinated Plan members. The City's contributions to the General Employees Fund for the year ended December 31, 2022, were $21,390. 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 members were required to contribute 11.8% of their annual covered salary in fiscal year 2022 and the City was required to contribute 17.7% for Police and Fire Plan members. The City's contributions to the Police and Fire Fund for the year ended December 31, 2022, were $11,387. The City's contributions were equal to the required contributions as set by state statute.

Pension Costs – At December 31, 2022, the City reported a liability of $308,881 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 $9,023. 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 0.0039% at the end of the measurement period and 0.0038% for the beginning of the period.

City's proportionate share of the net pension liability	$	308,881
State of Minnesota's proportionate share of the net pension liability associated with the City		9,023
Total	$	317,904

For the year ended December 31, 2022, the City recognized pension expense of $26,670 for its proportionate share of General Employees Plan's pension expense. In addition, the City recognized an additional $1,348 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 General Employees Plan 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	$ 2,580	$ 3,193
Difference between projected and actual investment earnings	7,217	
Changes in actuarial assumptions	68,168	1,127
Changes in proportion	13,292	4,778
Contributions paid to PERA subsequent to the measurement date	10,696	-
Total	$ 101,953	$ 9,098

The $10,696 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2023. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending December 31:	Pension Expense Amount
2023	$ 27,918
2024	33,751
2025	(7,444)
2026	27,934

At December 31, 2022, the City reported a liability of $221,929 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 0.0052% at the end of the measurement period and 0.0052% for the beginning of the period.

The State of Minnesota also 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 in 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 $14,432 for its proportionate share of the Police and Fire Plan's pension expense. In addition, the City recognized pension expense of $1,908 as grant revenue for its proportionate share of the State of Minnesota's pension expense contribution of $9 million to the Police and Fire Fund.

The State of Minnesota is not included as a non-employer contributing entity in the Police and Fire Pension Plan pension allocation schedules for the $9 million in supplemental state aid. The City recognized $459 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	$ 13,677	$ -
Difference between projected and actual investment earnings	1,897	
Changes in actuarial assumptions	131,551	1,382
Changes in proportion	2,307	3,732
Contributions paid to PERA subsequent to the measurement date	5,694	-
Total	$ 155,126	$ 5,114

The $5,694 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2023. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending December 31:	Pension Expense Amount
2023	$ 28,450
2024	27,821
2025	24,058
2026	45,762
2027	18,227

Long-Term Expected Return on Investment – The State Board of Investments, 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	33.50%	5.10%
Private Markets	25.00%	5.90%
Fixed Income	25.00%	0.75%
International Equity	16.50%	5.30%

Actuarial Methods and Assumptions – The total pension liability in the June 30, 2022, actuarial valuation was determined using an individual entry-age normal actuarial cost method. The long-term rate of return on pension plan investments used in the determination of the total liability is 6.50 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 6.50 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 are based on the Pub-2010 Public Safety Employee Mortality tables. The tables are adjusted slightly to fit PERA's experience.

Actuarial assumptions for the General Employees Plan are reviewed every four years. The most recent four-year experience study for the General Employees Plan was completed in 2019. The assumption changes were adopted by the Board and became effective with the July 1, 2020 actuarial valuation. The most recent four-year experience studies for the Police and Fire was completed in 2020 and was adopted by the Board and became effective with the July 1, 2021 actuarial valuation.

The following changes in actuarial assumptions 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 investment return and single discount rates were changed from 6.5 percent to 5.4 percent for financial reporting purposes.
- 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.

Discount Rate – The discount rate for the General Employees Plan used to measure the total pension liability in 2022 was 6.5 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.

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:

	1% Decrease (5.5%)	Current (6.5%)	1% Increase (7.5%)
General Employees Fund	$ 487,894	$ 308,881	$ 162,063
	1% Decrease (4.4%)	Current (5.4%)	1% Increase (6.4%)
Police and Fire Fund	355,865	221,929	129,823

Pension Plan Fiduciary Net Position – Detailed information about each defined benefit 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.

The City recognized total pension expense of $41,102 for all of the pension plans in which it participates.

NOTE 10. PUBLIC EMPLOYEES DEFINED CONTRIBUTION PLAN

Five council members of the City of Hallock are covered by the Defined Contribution Plan, a multiple-employer deferred compensation plan administered by PERA. The Defined Contribution Plan is a tax qualified plan under Section 401(a) of the Internal Revenue Code and all contributions by or on behalf of employees are tax deferred until time of withdrawal.

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. *Minnesota Statutes*, Chapter 353D.03, specifies plan provisions, including the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes 5 percent of salary which is matched by the elected official's employer. Employer and employee contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2 percent of employer contributions and twenty-five hundredths of one percent (0.25%) of the assets in each member's account annually.

Total contributions made by the City of Hallock during fiscal year 2022 were:

Contribution Amount		Percentage of Covered Payroll		Required
Employee	Employer	Employee	Employer	Rates
$166	$166	5.0%	5.0%	5.0%

NOTE 11. TAX INCREMENT REDEVELOPMENT

The City of Hallock entered into one Tax Increment District to develop housing in the City of Hallock. The district is as follows:

District 1-4 - Site preparation for construction of a new motel building.

Tax Increment District was set up to finance the costs of housing projects within the City of Hallock. Over a determined life of the District, all increases in property tax receipts resulting from increased market value will be sent to the City to offset costs. The determined time for repayment of the recapturable costs is twenty-five years.

NOTE 12. COMMITMENTS

In March of 2009, the City committed 33% of four historical volumes to a Managed Procurement Fund (MPF) for a five-year period, although it can be reviewed annually. The City typically enters into a procurement arrangement in March for 33% of projected natural gas needs for the winter months, at a specified rate per MCF. The final one-third of expected natural gas needs is then left to the open market. However, as of December 31, 2022, the City had not entered into any procurement arrangements in addition to the MPF.

The City had no construction commitments has of December 31, 2022.

NOTE 13. NEW PRONOUNCEMENTS

GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, improves financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs) and also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). The statement provides definitions of PPPs and APAs and provides uniform guidance on accounting and financial reporting for transactions that meet those definitions. A PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. An APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

GASB Statement No. 96, *Subscription-Based Information* Arrangements provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs). A SBITA is defined as a contract that conveys control of the right to use another party's (a SBITA vendor's) information technology (IT) software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction. Under this Statement, a government generally should recognize a right-to use subscription asset—an intangible asset—and a corresponding subscription liability. The requirements of this Statement will improve financial reporting by establishing a definition for SBITAs and providing uniform guidance for accounting and financial reporting for transactions that meet that definition. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

GASB Statement No. 99, *Omnibus 2022,* provides guidance on the following accounting matters:

- Classification and reporting of derivative instruments within the scope of Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, that do not meet the definition of either an investment derivative instrument or a hedging derivative instrument.
- Clarification of provisions in Statement No. 87, *Leases*, as amended, related to the determination of the lease term, classification of a lease as a short-term lease, recognition and measurement of a lease liability and a lease asset, and identification of lease incentives.
- Clarification of provisions in Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, related to (a) the determination of the public-private and public-public partnership (PPP) term and (b) recognition and measurement of installment payments and the transfer of the underlying PPP asset.
- Clarification of provisions in Statement No. 96, *Subscription-Based Information Technology Arrangements*, related to the subscription-based information technology arrangement (SBITA) term, classification of a SBITA as a short-term SBITA, and recognition and measurement of a subscription liability.
- Extension of the period during which the London Interbank Offered Rate (LIBOR) is considered an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap that hedges the interest rate risk of taxable debt.
- Accounting for the distribution of benefits as part of the Supplemental Nutrition Assistance Program (SNAP).
- Disclosures related to nonmonetary transactions.
- Pledges of future revenues when resources are not received by the pledging government.
- Clarification of provisions in Statement No. 34, *Basic Financial Statements— and Management's Discussion and Analysis—for State and Local Governments*, as amended, related to the focus of the government-wide financial statement.
- Terminology updates related to certain provisions of Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.
- Terminology used in Statement 53 to refer to resource flows statements.

The requirements of this statement are effective as follows:

- The requirements related to extension of the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement 34, as amended, and terminology updates related to Statement 53 and Statement 63 are effective upon issuance.
- The requirements related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.
- The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter.

GASB Statement No. 100, *Accounting Changes and Error Corrections – An Amendment of GASB Statement No. 62,* provides guidance on accounting and financial reporting requirements for accounting changes and error corrections. Statement requires that (a) changes in accounting principles and error corrections be reported retroactively by restating prior periods, (b) changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period, and (c) changes in accounting estimates be reported prospectively by recognizing the change in the current period. The requirements of this Statement for changes in accounting principles apply to the implementation of a new pronouncement in absence of specific transition provisions in the new pronouncement. This Statement also requires that the aggregate amount of adjustments to and restatements of beginning net position, fund balance, or fund net position, as applicable, be displayed by reporting unit in the financial statements.

This Statement requires disclosure in notes to financial statements of descriptive information about accounting changes and error corrections, such as their nature. In addition, information about the quantitative effects on beginning balances of each accounting change and error correction should be disclosed by reporting unit in a tabular format to reconcile beginning balances as previously reported to beginning balances as restated. The requirements of this Statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

GASB Statement No. 101, *Compensated Absences,* provides guidance on the recognition and measurement guidance for compensated absences. This Statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. This Statement also requires that a liability for specific types of compensated absences not be recognized until the leave is used. This Statement also establishes guidance for measuring a liability for leave that has not been used, generally using an employee's pay rate as of the date of the financial statements. A liability for leave that has been used but not yet paid or settled should be measured at the amount of the cash payment or noncash settlement to be made. Certain salary-related payments that are directly and incrementally associated with payments for leave also should be included in the measurement of the liabilities. This Statement amends the existing requirement to disclose the gross increases and decreases in a liability for compensated absences to allow governments to disclose only the net change in the liability (as long as they identify it as a net change). In addition, governments are no longer required to disclose which governmental funds typically have been used to liquidate the liability for compensated absences. The requirements of this Statement are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

Management has not yet determined what effect these statements will have on the entity's financial statements.

CITY OF HALLOCK
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2022

REVENUES	**Budgeted Amounts Original & Final**	**Actual Amounts**	**Variance with Budget**
Taxes:			
Property	$ 290,917	$ 286,020	$ (4,897)
Intergovernmental Revenue:			
Federal			
ARPA	-	129,944	129,944
State Grants:			
Local Government	408,630	408,630	-
Police Aid	10,900	10,016	(884)
Fire Aid	-	21,197	21,197
PERA	1,391	-	(1,391)
Airport	12,000	50,749	38,749
Department of Natural Resources	-	15,353	15,353
Other	900	17,368	16,468
Local Grants	-	9,775	9,775
Total Intergovernmental	433,821	663,032	229,211
Charges for Services:			
Licenses	5,500	4,055	(1,445)
Fines, Forfeits and Penalties	400	497	97
Fire Department	45,000	46,263	1,263
Rents	38,400	40,913	2,513
Camping Fees	25,000	37,835	12,835
Swimming Pool	20,000	28,099	8,099
Miscellaneous	13,000	14,096	1,096
Total Charges for Services	147,300	171,758	24,458
Other Revenues:			
Interest	23,000	25,238	2,238
Donations	1,000	12,392	11,392
Refunds and Reimbursement	29,000	58,164	29,164
Miscellaneous	4,500	37,345	32,845
Total Other Revenue	57,500	133,139	75,639
Total Revenues	929,538	1,253,949	324,411
EXPENDITURES			
General Government:			
Current			
City Council	10,200	9,570	630
City Administrator	105,850	125,292	(19,442)
Other	253,113	60,735	192,378
Capital Outlay	-	101,010	(101,010)
Total General Government	369,163	296,607	72,556

See Notes to the Required Supplementary Information

CITY OF HALLOCK
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2022

EXPENDITURES - Continued	Original & Final	Amounts	Budget
Public Safety:			
Current			
Police Protection	$ 93,350	$ 88,336	$ 5,014
Fire Protection	70,900	72,600	(1,700)
Other	-	10,558	(10,558)
Capital Outlay			
Police Protection	-	2,350	(2,350)
Fire Protection	6,000	20,329	(14,329)
Total Public Safety	170,250	194,173	(23,923)
Public Works:			
Current	207,275	255,658	(48,383)
Capital Outlay	65,500	49,358	16,142
Total Public Works	272,775	305,016	(32,241)
Culture and Recreation:			
Current- Parks	107,200	120,434	(13,234)
Current- Library	-	24,809	(24,809)
Current- Arena	-	51,838	(51,838)
Capital Outlay	26,000	6,500	19,500
Total Culture and Recreation	133,200	203,581	(70,381)
Community Development			
Current	-	530	(530)
Total Community Development	-	530	(530)
Airport:			
Current	24,100	59,372	(35,272)
Capital Outlay	10,050	34,481	(24,431)
Total Airport	34,150	93,853	(59,703)
Total Expenditures	979,538	1,093,760	(114,222)
REVENUES OVER (UNDER) EXPENDITURES	(50,000)	160,189	210,189
OTHER FINANCING SOURCES (USES)			
Transfer In	50,000	-	(50,000)
Transfer Out	-	(35,282)	(35,282)
Sale of Capital Asset	-	30,000	30,000
Total Other Financing Sources	50,000	(5,282)	(55,282)
NET CHANGE IN FUND BALANCE	-	154,907	154,907
FUND BALANCE, JANUARY 1	831,598	831,598	-
FUND BALANCE, DECEMBER 31	$ 831,598	$ 986,505	$ 154,907

See Notes to the Required Supplementary Information

CITY OF HALLOCK
SCHEDULE OF CITY CONTRIBUTIONS
AS OF DECEMBER 31, 2022

Pension Plan	Fiscal Year Ended December 31	Statutorily Required Contributions	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	City's Covered Payroll	Contributions as a % of Covered Payroll
General Employees Fund	2015	$ 22,983	$ 22,983	$ -	$ 306,512	7.50%
	2016	23,399	23,399	-	311,990	7.50%
	2017	21,843	21,843	-	291,239	7.50%
	2018	22,983	22,983	-	306,511	7.50%
	2019	19,131	19,131	-	237,464	8.06%
	2020	17,602	17,602	-	270,798	6.50%
	2021	21,007	21,007	-	280,131	7.50%
	2022	21,390	21,390	-	283,640	7.54%
Police and Fire Fund	2015	$ 9,070	$ 9,070	$ -	$ 55,987	16.20%
	2016	8,407	8,407	-	51,897	16.20%
	2017	8,930	8,930	-	55,125	16.20%
	2018	9,069	9,069	-	55,987	16.20%
	2019	10,000	10,000	-	51,669	19.35%
	2020	10,643	10,643	-	60,130	17.70%
	2021	10,842	10,842	-	61,252	17.70%
	2022	11,387	11,387	-	64,333	17.70%

The amounts presented for each fiscal year were determined as of the City’s year end which is December 31.

The City implemented GASB Statement No. 68 for its year ended December 31, 2015.

CITY OF HALLOCK
SCHEDULE OF CITY'S SHARE OF THE NET PENSION LIABILITY
AS OF DECEMBER 31, 2022

	Fiscal Year Ended June 30	City's Proportion of the Net Pension Liability	City's Proportionate Share of the Net Pension Liability	State's Proportionate Share of the Net Pension Liability Associated with the City	Total	City's Covered Payroll	City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
General Employees Fund	2015	0.0050%	$ 259,126	$ -	$ 259,126	$ 293,806	88.2%	78.20%
	2016	0.0049%	397,856	5,234	403,090	305,440	130.3%	68.90%
	2017	0.0048%	306,429	3,833	310,262	301,615	101.6%	75.90%
	2018	0.0047%	260,737	8,457	269,194	298,875	87.2%	79.53%
	2019	0.0038%	210,093	6,500	216,593	271,988	77.2%	80.23%
	2020	0.0035%	209,841	6,457	216,298	254,131	82.6%	79.06%
	2021	0.0038%	162,275	5,062	167,337	275,465	58.9%	87.00%
	2022	0.0039%	308,881	9,023	317,904	281,866	109.6%	76.67%
Police and Fire Fund	2015	0.0060%	$ 68,174	$ -	$ 68,174	$ 54,938	124.1%	86.61%
	2016	0.0060%	240,790	-	240,790	54,074	445.3%	63.90%
	2017	0.0050%	67,506	-	67,506	53,511	126.2%	85.40%
	2018	0.0052%	55,427	-	55,427	55,556	99.8%	88.84%
	2019	0.0055%	58,553	-	58,553	53,828	108.8%	89.26%
	2020	0.0052%	68,542	-	68,542	55,900	122.6%	87.19%
	2021	0.0052%	40,138	1,827	41,965	60,691	66.1%	93.66%
	2022	0.0052%	221,929	9,836	231,765	62,793	353.4%	70.53%

The amounts presented for each fiscal year were determined as of the measurement date of the City's net pension liability which is June 30, of the previous fiscal year.

The City implemented GASB Statement No. 68 for its year ended December 31, 2015.

See Notes to the Required Supplementary Information

NOTE 1 BUDGETARY COMPARISON

Budgets are prepared for City funds on the same basis and using the same accounting practices as are used to account and prepare financial reports for the funds. Budgets presented in this report for comparison to actual amounts are presented in accordance with accounting principles generally accepted in the United States of America. All appropriations lapse at year-end. Encumbrances represent commitments related to unperformed contracts for goods and services. Encumbrance accounting is not utilized in the governmental funds of the City.

The budget is adopted through the passage of a resolution. Administration can authorize the transfer of budgeted amounts within any fund. Any revisions that alter the total expenditures of any fund must be approved by the City Council. The annual appropriated budget is not legally binding on the City unless the City has a deficit fund balance, which exceeds 2.5 percent of expenditures.

NOTE 2 EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the year ended December 31, 2022, expenditures exceeded appropriations in the general fund by $114,222. The over expenditures were funded by greater than anticipated revenues.

NOTE 3 DEFINED BENEFIT PLANS

PERA

General Employees Fund

2022 Changes

<u>Changes in Plan Provisions</u>: There were no changes in plan provisions since the previous valuation.

<u>Changes in Actuarial Assumptions</u>: The mortality improvement scale was changed from Scale MP-2020 to Scale MP-2021.

2021 Changes

<u>Changes in Plan Provisions</u>: There were no changes in plan provisions since the previous valuation.

<u>Changes in Actuarial Assumptions</u>: 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 Changes

<u>Changes in Plan Provisions</u>: 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.

<u>Changes in Actuarial Assumptions</u>: 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 Changes

<u>Changes in Plan Provisions</u>: 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.

<u>Changes in Actuarial Assumptions</u>: The mortality projection scale was changed from MP-2017 to MP-2018.

2018 Changes

<u>Changes in Plan Provisions</u>: 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.

<u>Changes in Actuarial Assumptions</u>: 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 Changes

<u>Changes in Plan Provisions</u>: 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.

<u>Changes in Actuarial Assumptions</u>: 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 Changes

Changes in Plan Provisions: There have been no changes since the prior valuation.

Changes in Actuarial Assumptions: The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2035 and 2.5% per year thereafter to 1.0% per year for all future years. The assumed investment return was changed from 7.9% to 7.5%. The single discount rate was changed from 7.9% to 7.5%. 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% to 3.25% for payroll growth and 2.50% for inflation.

2015 Changes

Changes in Plan Provisions: On January 1, 2015, the Minneapolis Employees Retirement Fund was merged into the General Employees Fund, which increased the total pension liability by $1.1 billion and increased the fiduciary plan net position by $892 million. Upon consolidation, state and employer contributions were revised; the State's contribution of $6 million, which meets the special funding situation definition, was due September 2015.

Changes in Actuarial Assumptions: The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2030 and 2.5% per year thereafter to 1.0% per year through 2035 and 2.5% per year thereafter.

Police and Fire Fund

2022 Changes

Changes in Plan Provisions: There were no changes in plan provisions since the previous valuation.

Changes in Actuarial Assumptions: The investment return and single discount rates were changed from 6.5 percent to 5.4 percent for financial reporting purposes. The mortality improvement scale was changed from Scale MP-2020 to Scale MP-2021.

2021 Changes

Changes in Plan Provisions: There were no changes in plan provisions since the previous valuation.

Changes in Actuarial Assumptions: The investment return and single discount rates were changed from 7.50 percent to 6.50 percent for financial reporting purposes. The inflation assumption was changed from 2.50 percent to 2.25 percent. The payroll growth assumption was changed from 3.25 percent to 3.00 percent. The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 Public Safety Mortality table. The mortality improvement scale was changed from MP-2019 to MP-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 Changes

Changes in Plan Provisions: There have been no changes since the prior valuation.

Changes in Actuarial Assumptions: The morality projection scale was changed from MP-2018 to MP-2019.

2019 Changes

Changes in Plan Provisions: There have been no changes since the prior valuation.

Changes in Actuarial Assumptions: The morality projection scale was changed from MP-2017 to MP-2018.

2018 Changes

Changes in Plan Provisions: Postretirement benefit increases were changed to 1.00 percent for all years, with no trigger. An end date of July 1, 2048 was added to the existing $9.0 million state contribution. New annual state aid will equal $4.5 million in fiscal years 2019 and 2020, and $9.0 million thereafter until the plan reaches 100 percent funding, or July 1, 2048, if earlier. Member contributions were changed from 10.80 percent to 11.30 percent of pay, effective January 1, 2019 and 11.80 percent of pay, effective January 1, 2020. Employer contributions were changed from 16.20 percent to 16.95 percent of pay, effective January 1, 2019 and 17.70 percent of pay, effective January 1, 2020. Interest credited on member contributions decreased from 4.00 percent to 3.00 percent, beginning July 1, 2018. Deferred augmentation was changed to 0.00 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply. Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

Changes in Actuarial Assumptions: The morality projection scale was changed from MP-2016 to MP-2017.

2017 Changes

Changes in Plan Provisions: There have been no changes since the prior valuation.

Changes in Actuarial Assumptions: Assumed salary increases were changed as recommended in the June 30, 2016 experience study. The net effect is proposed rates that average 0.34 percent lower than the previous rates. Assumed rates of retirement were changed, resulting in fewer retirements. The combined service annuity (CSA) load was 30.00 percent for vested and non-vested, deferred members. The CSA has been changed to 33.00 percent for vested members and 2.00 percent for non-vested members. The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the mortality tables assumed for healthy retirees. Assumed termination rates were decreased to 3.00 percent for the first three years of service. Rates beyond the select period of three years were adjusted, resulting in more expected terminations overall. Assumed percentage of married female members was decreased from 65.00 percent to 60.00 percent. 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 Changes

Changes in Plan Provisions: There have been no changes since the prior valuation.

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

2015 Changes

Changes in Plan Provisions: The postretirement benefit increases to be paid after the attainment of the 90.00 percent funding threshold was changed from inflation up to 2.50 percent, to a fixed rate of 2.50 percent

Changes in Actuarial Assumptions: The assumed postretirement benefit increase rate was changed from 1.00 percent per year through 2030 and 2.50 percent per year thereafter to 1.00 percent per year through 2037 and 2.50 percent per year thereafter.

CITY OF HALLOCK
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2022

	Special Revenue		Debt Service	
	TIF 1-4	Small Cities Grant	2016 GO Bond	Total
ASSETS				
Cash and Cash Equivalents	$ 2,457	$ 62,722	$ 47,186	$ 112,365
Taxes Receivable	-	-	2,200	2,200
TOTAL ASSETS	$ 2,457	$ 62,722	$ 49,386	$ 114,565
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenue				
Special Assessments and Taxes	$ -	$ -	$ 2,200	$ 2,200
Total Deferred Inflows of Resources	-	-	2,200	2,200
FUND BALANCES				
Restricted for Debt Service	-	-	47,186	47,186
Restricted for Small Cities Grant	-	62,722	-	62,722
Restricted for Development	2,457	-	-	2,457
Total Fund Balances	2,457	62,722	47,186	112,365
TOTAL DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	$ 2,457	$ 62,722	$ 49,386	$ 114,565

CITY OF HALLOCK
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2022

	Special Revenue		Debt Service	
	TIF 1-4	Small Cities Grant	2016 GO Bond	Total
REVENUES				
Property Taxes	$ 2,457	$ -	$ 42,439	$ 44,896
Other Revenue	-	19,570	-	19,570
Total Revenues	2,457	19,570	42,439	64,466
EXPENDITURES				
Current:				
Community Development	-	46	-	46
Debt Service	-	-	35,000	35,000
Interest and Fees	-	-	4,687	4,687
Total Expenditures	-	46	39,687	39,733
Revenues Over Expenditures	2,457	19,524	2,752	24,733
OTHER FINANCING SOURCES				
Transfer In	-	14,482	-	14,482
Total Other Financing Sources	-	14,482	-	14,482
Net Change in Fund Balances	2,457	34,006	2,752	39,215
Fund Balances - Beginning	-	28,716	44,434	73,150
Fund Balances - Ending	$ 2,457	$ 62,722	$ 47,186	$ 112,365

CITY OF HALLOCK
SCHEDULE OF CHANGES IN FUND BALANCES AND NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2022

	Beginning Balance	Revenues	Expenditures	Transfers	Sale of Capital Asset	Ending Balance
Governmental Funds						
General	$ 831,598	$ 1,253,949	$ 1,093,760	$ (35,282)	$ 30,000	$ 986,505
Special Revenue						
Small Cities Grant	28,716	19,570	46	14,482	-	62,722
TIF 1-4		2,457	-	-	-	2,457
Debt Service						
2011 Street & Utility	134,210	146,973	179,130	-	-	102,053
2015 Refunding Bond	265,617	163,482	169,548	-	-	259,551
2016 GO Bond	44,434	42,439	39,687	-	-	47,186
Total Governmental Funds	1,304,575	1,628,870	1,482,171	(20,800)	30,000	1,460,474
Proprietary Funds						
Water	448,206	264,275	247,269	-	-	465,212
Sewer	625,086	135,512	91,172	-	-	669,426
Gas Distribution	1,452,548	665,945	566,464	-	-	1,552,029
EDA	21,961	767	19,300	20,800	-	24,228
Total Proprietary Funds	2,547,801	1,066,499	924,205	20,800	-	2,710,895
Total	$ 3,852,376	$ 2,695,369	$ 2,406,376	$ -	$ 30,000	$ 4,171,369

INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE

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

We have audited, in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hallock, Minnesota, 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 July 27, 2023. The governmental activities, general fund and gas distribution fund had qualified opinions.

Legal Compliance

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

Purpose of the Report

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

Brady Martz

BRADY, MARTZ & ASSOCIATES, P.C.
THIEF RIVER FALLS, MINNESOTA

July 27, 2023

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

To the Honorable Mayor and
Members of the City Council
City of Hallock, 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, business-type activities, each major fund, and the aggregate remaining fund information of the City of Hallock, Minnesota, as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the City of Hallock, Minnesota's basic financial statements, and have issued our report thereon dated July 27, 2023. The governmental activities, general fund, and gas distribution fund had qualified opinions.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Hallock'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 the 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 have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings as items 2022-001 and 2022-002 that we consider to be material weaknesses.

Report on Compliance and Other Matters

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

The City's Response to the Findings

Government Auditing Standards requires the auditor to perform limited procedures on the City's responses to the findings identified in our audit and described in the accompanying schedule of findings and corrective action plan. 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 result 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.

Brady Martz

BRADY, MARTZ & ASSOCIATES, P.C.
THIEF RIVER FALLS, MINNESOTA

July 27, 2023

CITY OF HALLOCK
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2022

2022-001 FINDING

Criteria
An appropriate system of internal control requires the City to prepare financial statements in accordance with accounting principles generally accepted in the United States of America.

Condition
The City's personnel prepare periodic financial information for internal use that meets the needs of management and the City Council. However, the City currently does not prepare the financial statements, including accompanying note disclosures, as required by accounting principles generally accepted in the United States of America. The City has elected to have the auditors assist in the preparation of the financial statements and notes.

Cause
The City elected to not allocate resources for the preparation of the financial statements.

Effect
There is an increased risk of material misstatement to the City's financial statements.

Recommendation
We recommend the City consider the additional risk of having the auditors assist in the preparation of the financial statements and note disclosures and consider preparing them in the future. As a compensating control, the City should establish an internal control policy to document the annual review of the financial statement and to review a financial statement disclosure checklist.

Views of Responsible Officials and Planned Corrective Actions
The City agrees with the recommendation and will review on an annual basis.

2022-002 FINDING

Criteria
Generally, a system of internal control contemplates a separation of duties that no individual has responsibility to execute a transaction, have physical access to the related assets, and have responsibility or authority to record the transaction.

Condition
Lack of sufficient segregation of duties. We noted the following during our audit.

- The City's bank account had unreconciled differences.
- Utility accounts receivable subsidiary records were not reconciled to the general ledger.
- The City overbilled and overpaid $7,900 in fire department utilities.
- Payroll liability accounts were not reconciled.
- The City did not make the first quarter payments to the IRS for federal withholdings.
- There was no subsidiary ledger for the Meter Deposit Liability.
- The City does not have internal controls in place to identify and set up due from other governments' balances.
- The City Council did not approve the electronic fund transfers.
- The City's gas margin has decreased 15% from 2020 to 2022.
- The City has an unsupported undistributed receipts balance of $10,324.
- The City was unable to support all campground receipts.

Cause
Lack of oversight.

Effect
The design of the internal control over financial reporting that could adversely affect the ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Recommendation

- Balance sheet accounts should be reconciled monthly.
- Subsidiary ledger should be maintained of the "Meter Deposit" Account.
- Controls over grant receivables should be established.
- City Council should approve all payments, including the electronic fund transfers.
- Establish procedures to monitor gas margins.
- Reconcile the undistributed receipts balance.
- Maintain a complete record of campground receipts.

Views of Responsible Officials and Planned Corrective Actions
The City agrees with the recommendations and will implement.

CITY OF HALLOCK
CORRECTIVE ACTION PLAN
DECEMBER 31, 2022

2022-001 FINDING

Contact Person – Dave Treumer, Mayor

Corrective Action Plan – Will establish a policy to document review of financial statement and notes.

Completion Date – Ongoing

2022-002 FINDING

Contact Person – Dave Treumer, Mayor

Corrective Action Plan –

The City Clerk/Administrator will review the following and provide reports to the Council as needed:

- Balance sheet accounts reconciled monthly.
- All payments are now being presented to Council for approval
- The City raised gas rates early in 2023

Completion Date – Immediately