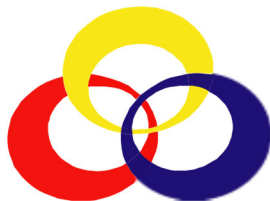


FINANCIAL AUDIT REPORT  
FOR THE YEAR ENDED  
DECEMBER 31, 2022



CITY OF MILROY,  
MINNESOTA



**Kinner & Company Ltd**  
Certified Public Accountants  
Taxes, QuickBooks &  
Investments

**CITY OF MILROY  
MILROY, MINNESOTA  
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MILROY, MINNESOTA  
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## **INTRODUCTORY SECTION**

**CITY OF MILROY  
MILROY, MINNESOTA  
DECEMBER 31, 2022**

ELECTED AND APPOINTED OFFICIALS

Elected

Megan Weber	Mayor
Drew Olson	Council Member
Colleen Brooks	Council Member
Renee Zwach	Council Member
John Christensen	Council Member

Appointed

Bette Snyder	Clerk-Treasurer
Kevin Passe	Attorney

## **FINANCIAL SECTION**



**Kinner & Company Ltd**  
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members of the Council  
City of Milroy  
Milroy, Minnesota 56263

**Opinions**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Milroy, 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 Milroy, Minnesota's basic financial statements as listed in the table of contents

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

**Basis for Opinions**

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

**Responsibilities of Management for the Financial Statements**

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

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

## **Auditor's Responsibilities for the Audit of the Financial Statements**

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

In performing an audit in accordance with generally accepted auditing standards, we:

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

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

## **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the pension required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Government Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



## Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Milroy, Minnesota's basic financial statements. The accompanying combining nonmajor fund financial statements, and schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor fund financial statements and the schedule of expenditures of federal awards 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 report. The other information comprises the introductory section but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial 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 February 27, 2023, on our consideration of the City of Milroy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is 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 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 Milroy's internal control over financial reporting and compliance.

*Kinner & Company Ltd*

Kinner & Company Ltd  
Certified Public Accountants  
February 27, 2023

**CITY OF MILROY  
MANAGEMENT’S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2022**

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

**Financial Highlights**

- The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$1,218,811 (net position). Of this amount, \$462,296 (unrestricted net position) may be used to meet the City’s ongoing obligations to citizens and creditors.
  
- The City’s total net position increased by \$60,510, compared to an increase of \$29,083 in the previous year. Of this increase, business-type activities (enterprise funds) had an increase of \$19,691 and governmental activities had an increase of \$40,819. The major factor in the change in governmental activities was due to American Rescue Plan received for \$12,950. Additionally, the fire relief reimbursed the City for equipment purchases. The major factor contributing to the increase in business-type activities relates to the additional revenue and less expenses.
  
- As of the close of the current fiscal year, the City’s governmental funds reported combined ending fund balances of \$862,106, an increase of \$364,067 in comparison with the prior year. Approximately 51 percent of this total amount, \$167,011 is available for spending at the City’s discretion. The remainder of fund balance is restricted for intergovernmental funds, nonspendable for prepaids, assigned for special revenue or committed by the Council.

**Overview of the Financial Statements**

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

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary schedules that further explain and support the information in the financial statements. Figure 1 shows how the required parts of this annual report are arranged and relate to one another.

**CITY OF MILROY  
MANAGEMENT’S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2022**

Figure 1  
Required Components of the  
City’s Annual Financial Report

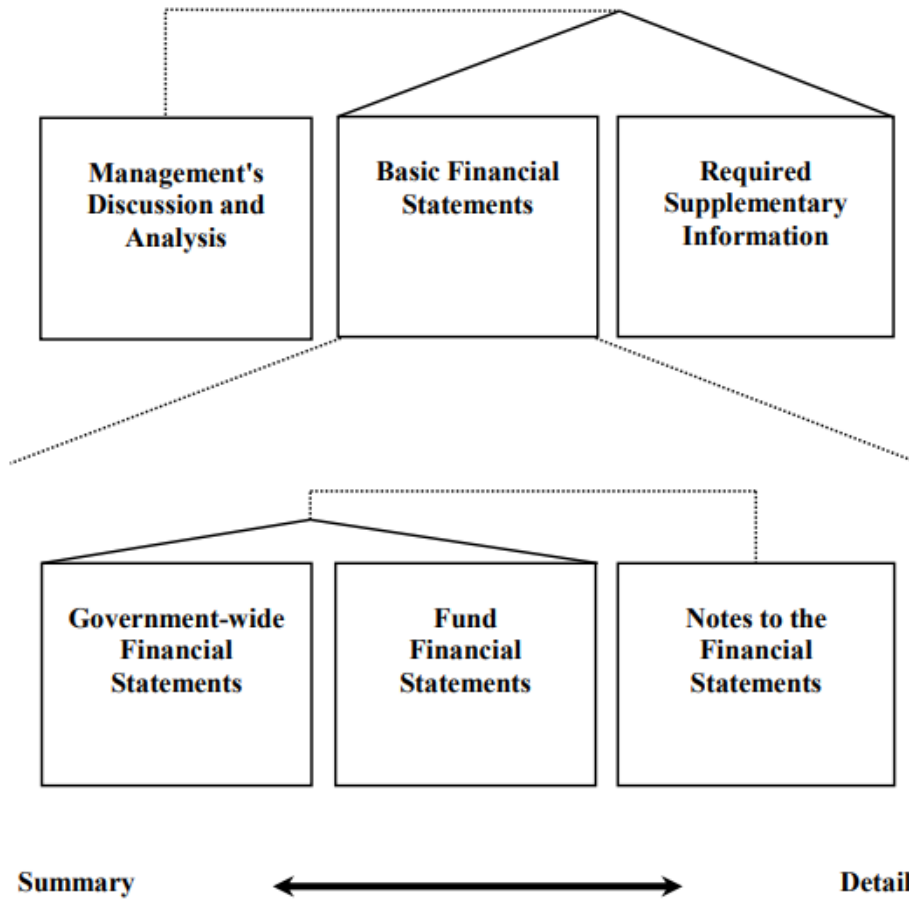


Figure 2 summarizes the major features of the City’s financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis explains the structure and contents of each of the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

**CITY OF MILROY  
MANAGEMENT’S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2022**

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

	<b>Fund Financial Statements</b>		
	<b>Government-wide Statements</b>	<b>Governmental Funds</b>	<b>Proprietary Funds</b>
Scope	Entire City Government	The activities of the City that are not proprietary, such as the General Fund	Activities the City operates similar to private businesses, such as the water and sewer system and garbage operations.
Required Financial Statements	-Statement of Net Position -Statement of Activities	-Balance Sheet -Statement of Revenues, Expenditures, and Changes in Fund Balances	-Balance Sheet -Statement of Revenues, Expenditures, and Changes in Fund Balances -Statement of Cash Flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual account and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of deferred outflows/inflows of resources information	All deferred outflows/inflows of resources, regardless of when cash is received or paid	Only deferred outflows of resources expected to be used up and deferred inflows of resources that come due during the year or soon thereafter; no capital assets included	All deferred outflows/inflows of resources, regardless of when cash is received or paid
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid

**Government-wide financial statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of the City’s finances.

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

The *statement of activities* presents information showing how the City’s net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

**CITY OF MILROY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**DECEMBER 31, 2022**

Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenue (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, public works, and culture and recreation. The business-type activities of the City include sewer, water, and garbage.

The City does not have any component units to report on for which it is financially accountable.

The government-wide financial statements can be found starting on page 16 of this report.

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

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

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

The City maintains five governmental funds; the General fund, debt service fund and three special revenue funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the funds General, 2022 Tax Abatement and Fire, which are considered to be major funds. Data from the other nonmajor governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements or schedules elsewhere in this report.

**CITY OF MILROY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2022**

The City adopts an annual appropriated budget for its General fund and major special revenue funds. Budgetary comparison statements have been provided for the General fund and Fire fund to demonstrate compliance with these budgets.

The basic governmental fund financial statements can be found starting on page 19 of this report.

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

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

The basic proprietary fund financial statements can be found starting on page 23 of this report.

**Notes to financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found starting on page 29 of this report.

**Required supplementary information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City of Milroy's share of net pension liabilities for defined benefit plans and schedules of contributions. The required supplementary information can be found on page 57 of this report.

### **Government-wide Financial Analysis**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$1,218,811 at the close of the most recent fiscal year.

A portion of the City's net position (34 percent) reflects its investment in capital assets (e.g., land, buildings and improvements, machinery and equipment); less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**CITY OF MILROY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2022**

City of Milroy's Summary of Net Position

	Governmental Activities		Business-Type Activities		2022
	2022	2021	2022	2021	Total
Current and other assets	\$ 1,087,644	\$ 506,376	\$ 304,635	\$ 288,646	\$1,392,279
Capital assets	2,314,788	405,624	228,269	259,588	2,543,057
Total assets	3,402,432	912,000	532,904	548,234	3,935,336
Deferred outflows	20,927	26,773	10,780	13,792	31,707
Long-term liabilities outstanding	2,392,989	45,713	132,658	147,588	2,525,647
Other liabilities	147,489	4,745	34,565	33,840	182,054
Total liabilities	2,540,478	50,458	167,223	181,428	2,707,701
Deferred inflows	26,751	3,004	13,780	37,608	40,531
Net position					
Net investment in capital assets	308,969	405,624	102,268	103,587	411,237
Restricted	345,278	28,022	-	-	345,278
Unrestricted	201,883	381,665	260,413	239,403	462,296
	\$ 856,130	\$ 815,311	\$ 362,681	\$ 342,990	\$1,218,811

Restricted net position of \$345,278 (28 percent) relates to American Rescue Plan (ARP) funds and Small Cities Assistance funds that the City has not spent as of the end of the fiscal year as well as debt service funds.

The remaining balance of unrestricted net position (38 percent) may be used to meet the City's ongoing obligations to citizens and creditors.

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

There was an increase of \$19,691 in net position reported in connection with the City's business-type activities. This increase was a result of the following funds: Sewer decrease of \$13,547, Water increase of \$29,085 and Garbage increase of \$4,153.

**CITY OF MILROY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2022**

**Governmental activities.** Governmental activities increased the City's net position by \$40,819. Key elements of this decrease are described above and summarized as follows:

City of Milroy's Changes in Net Position

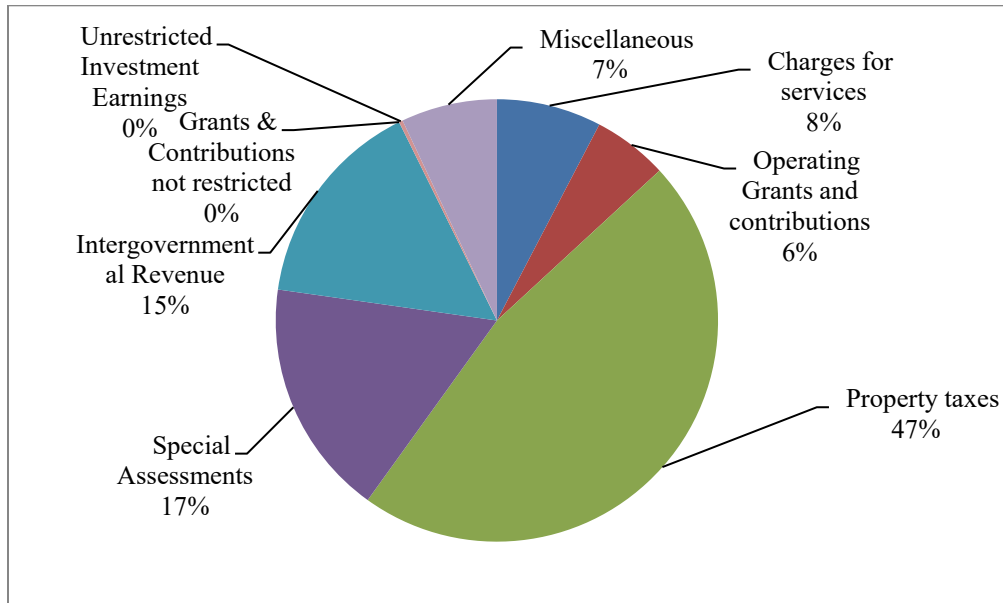
	Governmental Activities		Business-type Activities		2022
	2022	2021	2022	2021	Total
Revenues:					
Charges for services	\$ 32,207	\$ 27,602	\$ 150,717	\$ 151,446	\$ 182,924
Operating Grants and contributions	23,053	37,841	-	-	23,053
Capital grants and contributions	-	-	-	-	-
General Revenues					
Property taxes	196,506	192,085			196,506
Special Assessments	72,724	-	716	1,030	73,440
Intergovernmental Revenue	64,981	64,819	148	48	65,129
Grants & Contributions not restricted to specific programs	-	-	-	-	-
Unrestricted Investment Earnings	1,177	852	-	-	1,177
Gain on Sales of Assets	-	8,875	-	-	-
Miscellaneous	29,490	16,675	-	-	29,490
<b>Total Revenues</b>	<b>420,138</b>	<b>348,749</b>	<b>151,581</b>	<b>152,524</b>	<b>571,719</b>
Expenses:					
General Administrative	168,834	191,372	-	-	168,834
Public Safety	49,683	40,656	-	-	49,683
Streets & Highways	99,313	64,875	-	-	99,313
Cultural & Recreation	6,105	10,928	-	-	6,105
Economic Development	2,577	2,618	-	-	2,577
Fitness Center	4,913	4,145	-	-	4,913
Depreciation - Unallocated	9,890	10,497	-	-	9,890
Interest Expense	38,004	-	-	-	38,004
Water	-	-	82,983	82,168	82,983
Sewer	-	-	34,180	50,199	34,180
Garbage	-	-	14,727	14,732	14,727
<b>Total expenses</b>	<b>379,319</b>	<b>325,091</b>	<b>131,890</b>	<b>147,099</b>	<b>511,209</b>
Transfers	-	-	-	-	-
Increase (Decrease) in net position	40,819	23,658	19,691	5,425	60,510
Net Position, January 1	815,311	791,653	342,990	337,565	1,158,301
<b>Net Position, December 31</b>	<b>\$ 856,130</b>	<b>\$ 815,311</b>	<b>\$ 362,681</b>	<b>\$ 342,990</b>	<b>\$ 1,218,811</b>



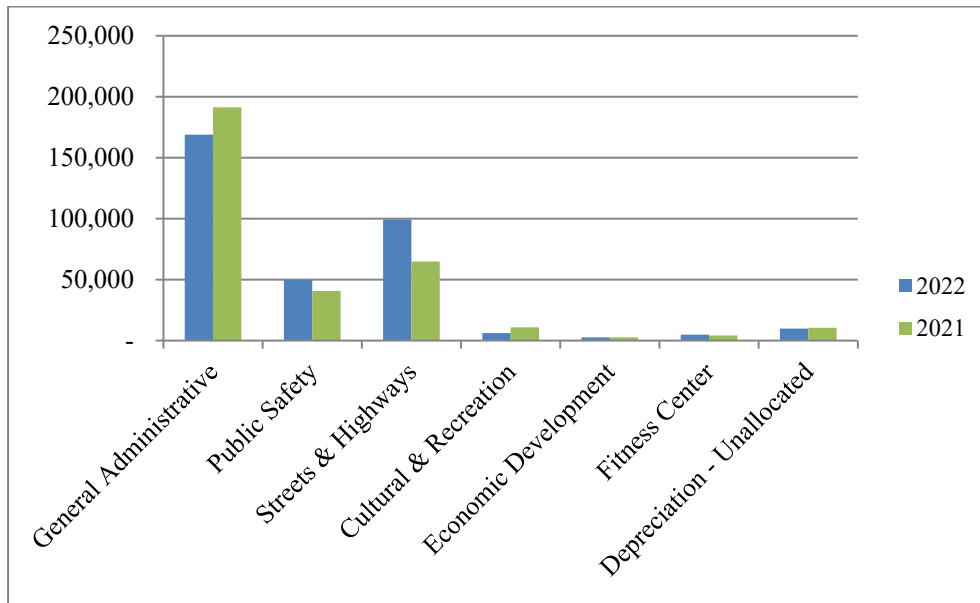
**CITY OF MILROY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2022**

The following graphs depict various governmental activities and show the revenues and expenses directly related to those activities.

**Revenues by Source- Governmental Activities**



**Expenses Compared to Prior Year – Governmental Activities**

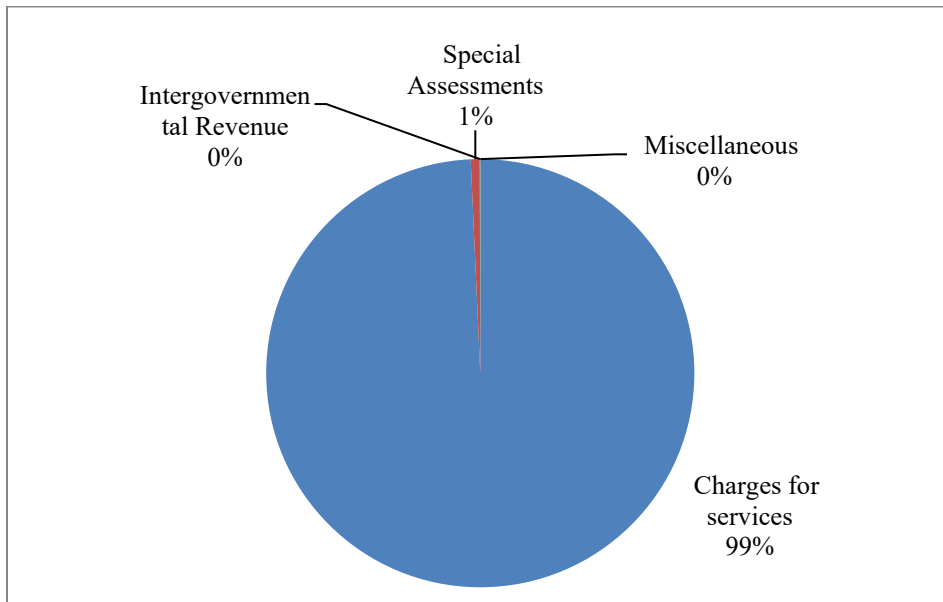


**CITY OF MILROY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2022**

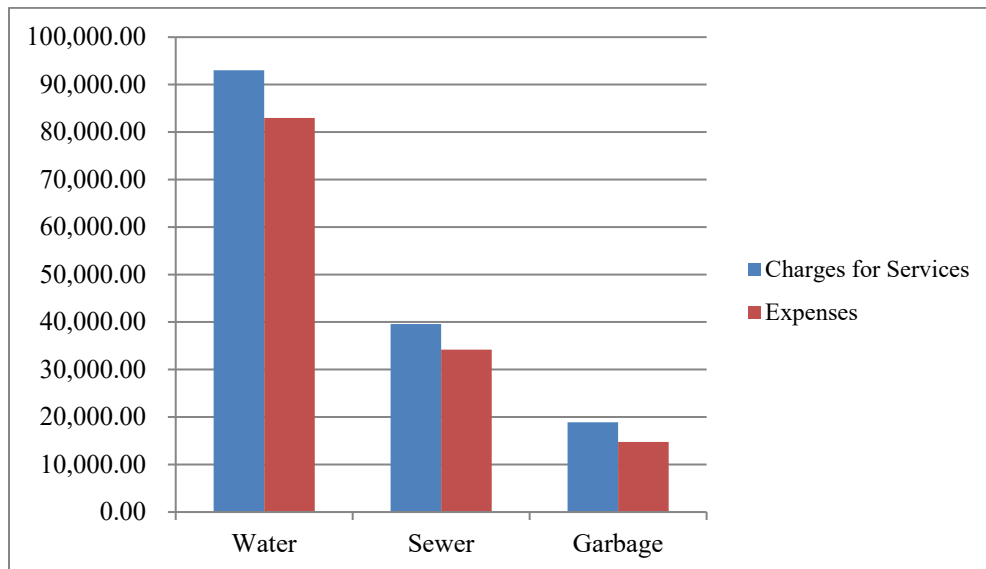
**Business-type activities.** Business-type activities increased the City's net position by \$19,691. Key elements of this increase are as follows:

- Overall revenue decreased by \$943 in the business-type funds while operating expenses decreased by \$15,209.

**Revenues by Source- Business-type Activities**



**Charges for Services and Expenses – Business-type Activities**



**CITY OF MILROY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2022**

**Financial Analysis of the City's Funds**

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

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

The *General fund* is the chief operating fund of the City. At the end of the current year, the fund balance of the General fund was \$324,392. As a measure of the General fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 8 percent of fund expenditures, while total fund balance represents 15 percent of that same amount. Expenditures were higher during 2022 due to the street improvement project.

The fund balance of the City's General fund increased by \$50,737 during the current fiscal year. The keys factor in this decrease relate to funds for American Rescue Plan and excess revenues over expenditures.

The Fire fund has a total fund balance of \$177,518. There was an increase in fund balance during the current year of \$13.

The 2022 Tax Abatement fund has a total fund balance of \$307,181. This balance is a result unspent bond proceeds.

*Proprietary funds.* The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of the enterprise funds at the end of the year amounted to \$260,413. The total increase in net position for the funds was \$19,691. Other factors concerning the finances of this fund have already been addressed in the discussion of the City's business-type activities.

**General Fund Budgetary Highlights**

The City's General fund budget had no amendments during the year. Actual revenues exceeded budget expectations by \$21,079 largely due to Small Cities Assistance and actual expenditures exceeded the budget by \$1,933,232 due to the street improvement project. Other financing sources/uses resulted in a positive 1,967,815. The net result was an increase to the General fund balance of \$50,737 in 2022.

**CITY OF MILROY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2022**

**Capital Asset and Debt Administration**

**Capital assets.** The City's net investment in capital assets for its governmental and business type activities as of December 31, 2022 amounts to \$2,543,057 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment. The total increase in the City's investment in capital assets for the current fiscal year was over 100%.

Some of the major capital asset additions during the current fiscal year included the following:

The purchase of a grass rig and street improvement project.

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

**City of Milroy's Capital Assets**

	Governmental Activities		Business-type Activities		2022
	2022	2021	2022	2021	Total
Land	\$ 27,987	\$ 27,987	\$ -	\$ -	\$ 27,987
Buildings & Improvements	2,365,061	397,246	637,202	637,202	3,002,263
Equipment	864,015	842,220	-	-	864,015
Totals	<u>3,257,063</u>	<u>1,267,453</u>	<u>637,202</u>	<u>637,202</u>	<u>3,894,265</u>
Less Accumulated Depreciation	<u>(942,275)</u>	<u>(861,829)</u>	<u>(408,934)</u>	<u>(377,615)</u>	<u>(1,351,209)</u>
Net Capital Assets	<u>\$2,314,788</u>	<u>\$ 405,624</u>	<u>\$ 228,269</u>	<u>\$ 259,587</u>	<u>\$2,543,057</u>

**Long-term debt.** At the end of the current fiscal year, the City had total debt outstanding of \$2,439,000. All of the City's debt is all backed by the full faith and credit of the City.

**City of Milroy's Outstanding Debt**

	Governmental Activities		Business-Type Activities		2022
	2022	2021	2022	2021	Total
Tax Abatement Bond, Series 2022A	\$2,313,000	\$ -	\$ -	\$ -	\$2,313,000
GO Utility Revenue Bond	-	-	126,000	156,000	126,000
Totals	<u>\$2,313,000</u>	<u>\$ -</u>	<u>\$ 126,000</u>	<u>\$ 156,000</u>	<u>\$2,439,000</u>

The City's total debt increased over 100 percent during the current fiscal year.

Additional information on the City's long-term debt can be found in Note 3E.

**CITY OF MILROY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2022**

**Economic Factors and Next Year's Budgets and Rates**

The City's elected and appointed officials considered many factors when setting the fiscal year 2023 budget, tax rates and fees that will be charged for the business-type activities. The Council expects operations to remain consistent with 2022.

**Requests for Information**

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Clerk, City of Milroy, PO Box 9, Milroy, MN 56263.

## **BASIC FINANCIAL STATEMENTS**

The basic financial statements include integrated sets of financial statements as required by the GASB. The sets of statements include:

Government-Wide Financial Statements

Fund Financial Statements:

Governmental Funds

Proprietary (Enterprise) Funds

In addition, the notes to the financial statements are included to provide information that is essential to a user's understanding of the basic financial statements.

**City of Milroy**  
**Statement of Net Position**  
**December 31, 2022**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
<i>Current Assets</i>			
Cash and Cash Equivalents	\$ 1,001,143	\$ 292,439	\$ 1,293,582
Delinquent Taxes Receivable	5,708	--	5,708
Accounts Receivable	--	10,298	10,298
Special Assessments Receivable	--	1,898	1,898
Prepaid and Other Assets	8,069	--	8,069
<b>Total Current Assets</b>	<b>1,014,920</b>	<b>304,635</b>	<b>1,319,555</b>
<i>Noncurrent Assets</i>			
Special Assessment Receivable	72,724	--	72,724
Non-Depreciable	27,987	--	27,987
Depreciable, Net	2,286,801	228,269	2,515,070
<b>Total Assets</b>	<b>3,402,432</b>	<b>532,904</b>	<b>3,935,336</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred Pension Resources	20,927	10,780	31,707
<b>Total Deferred Outflows of Resources</b>	<b>20,927</b>	<b>10,780</b>	<b>31,707</b>
<b>LIABILITIES</b>			
<i>Current Liabilities</i>			
Accounts Payable	144,244	1,958	146,202
Accrued Interest Payable	--	1,607	1,607
Deposits	850	--	850
Unearned Revenue	2,395	--	2,395
Bonds Payable-due within one year	--	31,000	31,000
<b>Total Current Liabilities</b>	<b>147,489</b>	<b>34,565</b>	<b>182,054</b>
<i>Noncurrent Liabilities</i>			
Accrued Leave	12,036	2,652	14,688
Bonds Payable-due beyond one year	2,313,000	95,000	2,408,000
Net Pension Liability	67,953	35,006	102,959
<b>Total Liabilities</b>	<b>2,540,478</b>	<b>167,223</b>	<b>2,707,701</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred Pension Resources	26,751	13,780	40,531
<b>Total Deferred Inflows of Resources</b>	<b>26,751</b>	<b>13,780</b>	<b>40,531</b>
<b>NET POSITION</b>			
Net Investment in Capital Assets	308,969	102,268	411,237
<i>Restricted</i>	345,278	--	345,278
<i>Unrestricted</i>	201,883	260,413	462,296
<b>Total Net Position</b>	<b>\$ 856,130</b>	<b>\$ 362,681</b>	<b>\$ 1,218,811</b>

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

**City of Milroy  
Statement of Activities  
For the Year Ended December 31, 2022**

<b>Functions/Programs</b>	<b>Expenses</b>	<b>Program Revenues</b>			<b>Net (Expense) Revenue</b>		
		<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>	<b>Primary Government</b>		
					<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>Primary Government</b>							
<b>Governmental Activities:</b>							
General Government and Administration	\$ 168,834	\$ 2,145	\$ 12,950	\$ --	\$ (153,739)	\$ --	\$ (153,739)
Public Safety	49,683	16,546	10,103	--	(23,034)	--	(23,034)
Streets and Highways	99,313	--	--	--	(99,313)	--	(99,313)
Culture and Recreation	6,105	--	--	--	(6,105)	--	(6,105)
Economic Development	2,577	9,900	--	--	7,323	--	7,323
Fitness Center	4,913	3,616	--	--	(1,297)	--	(1,297)
Depreciation-Unallocated	9,890	--	--	--	(9,890)	--	(9,890)
Interest Expense	38,004	--	--	--	(38,004)	--	(38,004)
<b>Total Governmental Activities</b>	<b>379,319</b>	<b>32,207</b>	<b>23,053</b>	<b>--</b>	<b>(324,059)</b>	<b>--</b>	<b>(324,059)</b>
<b>Business-type Activities:</b>							
Garbage	14,727	18,707	--	--	--	3,980	3,980
Sewer	34,180	39,392	--	--	--	5,212	5,212
Water	82,983	92,618	--	--	--	9,635	9,635
<b>Total Business-type Activities</b>	<b>131,890</b>	<b>150,717</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>18,827</b>	<b>18,827</b>
<b>Total Primary Government</b>	<b>\$ 511,209</b>	<b>\$ 182,924</b>	<b>\$ 23,053</b>	<b>\$ --</b>	<b>\$ (324,059)</b>	<b>\$ 18,827</b>	<b>\$ (305,232)</b>

**General Purpose Revenues and Transfers:**

**Revenues**

Taxes	196,506	--	196,506
Special Assessments	72,724	716	73,440
Local Government Aid	64,981	--	64,981
Refunds and Reimbursements	18,248	--	18,248
Interest Revenue	1,177	--	1,177
Insurance Dividends	1,648	--	1,648
Other	9,594	148	9,742

**Transfers**

<b>Total General Revenues and Transfers</b>	<b>364,878</b>	<b>864</b>	<b>365,742</b>
<b>Change in Net Position</b>	<b>40,819</b>	<b>19,691</b>	<b>60,510</b>
<i>Net Position at Beginning of Period</i>	815,311	342,990	1,158,301
<b>Net Position at End of Period</b>	<b>\$ 856,130</b>	<b>\$ 362,681</b>	<b>\$ 1,218,811</b>

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



**City of Milroy  
Balance Sheet  
Governmental Funds  
December 31, 2022**

	<u>Special Revenue</u>		<u>Debt Service</u>		<u>Total Governmental Funds</u>
	<u>General</u>	<u>Fire</u>	<u>2022 Tax Abatement</u>	<u>Other Governmental Funds</u>	
<b>ASSETS</b>					
Cash and Cash Equivalents	\$ 459,467	\$ 178,106	\$ 307,181	\$ 56,389	\$ 1,001,143
Delinquent Taxes Receivable	5,708	--	--	--	5,708
Prepaid and Other Assets	8,069	--	--	--	8,069
Special Assessment Receivable	--	--	72,724	--	72,724
<b>Total Assets</b>	<u>373,244</u>	<u>178,106</u>	<u>479,905</u>	<u>56,389</u>	<u>1,087,644</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>					
Aggregated deferred outflows	--	--	--	--	--
<b>Total Assets and Deferred Outflows of Resources</b>	<u>\$ 473,244</u>	<u>\$ 178,106</u>	<u>\$ 379,905</u>	<u>\$ 56,389</u>	<u>\$ 1,087,644</u>
<b>LIABILITIES</b>					
Accounts Payable	\$ 143,527	\$ 588	\$ --	\$ 129	\$ 144,244
Deposits	--	--	--	850	850
Unearned Revenue	--	--	--	2,395	2,395
<b>Total Liabilities</b>	<u>143,527</u>	<u>588</u>	<u>--</u>	<u>3,374</u>	<u>147,489</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Unavailable Revenue - Taxes	5,325	--	--	--	5,325
Unavailable Revenue - Special Assessments	--	--	72,724	--	72,724
<b>Total Liabilities and Deferred Inflows of Resources</b>	<u>148,852</u>	<u>588</u>	<u>72,724</u>	<u>3,374</u>	<u>225,538</u>
<b>FUND BALANCE</b>					
Nonspendable	8,069	--	--	--	8,069
Restricted	38,097	--	307,181	--	345,278
Committed	111,215	142,915	--	2,263	256,393
Assigned	--	34,603	--	50,752	85,355
Unassigned	167,011	--	--	--	167,011
<b>Total Fund Balance</b>	<u>324,392</u>	<u>177,518</u>	<u>307,181</u>	<u>53,015</u>	<u>862,106</u>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balance</b>	<u>\$ 473,244</u>	<u>\$ 178,106</u>	<u>\$ 379,905</u>	<u>\$ 56,389</u>	<u>\$ 1,087,644</u>

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

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

Total Fund Balance - Governmental Funds	\$	862,106
Compensated absences expensed as paid in governmental fund statements, expensed as incurred in entity wide statements, and reflected as liability on Statement of Net Position		(12,036)
Capital assets are capitalized in the Statement of Net Position and depreciated in the Statement of Activities. These are expensed when acquired in the Statement of Revenues, Expenditures, and Changes in Fund Balance.		2,314,787
Receivables to be collected, but not available soon enough to pay for the current period's expenditures, and therefore are reported as deferred inflows.		78,049
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds.		(2,313,000)
Net pension liability is not due and payable in the current period from current financial resources, and therefore are not reported in the funds.		(67,953)
Pension related deferred inflows are not due and payable in the current period from current financial resources, and therefore are not reported in funds.		(26,751)
Pension related deferred outflows are not available to pay for current period expenditures and therefore are deferred in the funds.		20,927
<b>Total Net Position-Governmental Funds</b>	<b>\$</b>	<b><u>856,130</u></b>

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

**City of Milroy**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Governmental Funds**  
**For the Year Ended December 31, 2022**

	<u>Special Revenue</u>		<u>Debt Service</u>		<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
	<u>General</u>	<u>Fire</u>	<u>2022 Tax Abatement</u>			
<b>Revenues</b>						
Taxes	\$ 194,773	\$ --	\$ --	\$ --	\$ --	\$ 194,773
Local Government Aid	64,981	--	--	--	--	64,981
Federal Grants	12,950	--	--	--	--	12,950
Other State Aid	10,103	--	--	--	--	10,103
Licenses, Permits, Fines, and Fees	2,145	--	--	--	--	2,145
Charges for Services	--	16,546	--	--	13,516	30,062
Refunds and Reimbursements	--	18,248	--	--	--	18,248
Insurance Dividends	1,648	--	--	--	--	1,648
Other	3,353	6,131	--	--	110	9,594
Interest Revenue	848	329	--	--	--	1,177
<b>Total Revenues</b>	<b>290,801</b>	<b>41,254</b>	<b>--</b>	<b>--</b>	<b>13,626</b>	<b>345,681</b>
<b>Expenditures</b>						
General Government and Administration	172,535		--	--	--	172,535
Public Safety	12,000	20,946	--	--	--	32,946
Streets and Highways	44,867	--	--	--	--	44,867
Culture and Recreation	1,162	--	--	--	--	1,162
Economic Development	--	--	--	--	2,577	2,577
Fitness Center	--	--	--	--	4,913	4,913
Interest Expense	--	--	38,004	--	--	38,004
Capital Outlay	1,967,815	29,795	--	--	--	1,997,610
<b>Total Expenditures</b>	<b>2,198,379</b>	<b>50,741</b>	<b>38,004</b>	<b>--</b>	<b>7,490</b>	<b>2,294,614</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>(1,907,578)</b>	<b>(9,487)</b>	<b>(38,004)</b>	<b>--</b>	<b>6,136</b>	<b>(1,948,933)</b>
<b>Other Financing Sources (Uses)</b>						
Proceeds from Loans	2,213,000	--	100,000	--	--	2,313,000
Transfers from Other Funds	--	9,500	245,185	--	--	254,685
Transfers to Other Funds	(254,685)	--	--	--	--	(254,685)
<b>Net Other Financing Sources (Uses)</b>	<b>1,958,315</b>	<b>9,500</b>	<b>445,185</b>	<b>--</b>	<b>--</b>	<b>2,313,000</b>
<b>Net Change in Fund Balance</b>	<b>50,737</b>	<b>13</b>	<b>307,181</b>	<b>--</b>	<b>6,136</b>	<b>364,067</b>
<i>Fund Balance at Beginning of Period</i>	273,655	177,505	--	--	46,879	498,039
<b>Fund Balance at End of Period</b>	<b>\$ 324,392</b>	<b>\$ 177,518</b>	<b>\$ 307,181</b>	<b>\$ --</b>	<b>\$ 53,015</b>	<b>\$ 862,106</b>

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

**City of Milroy**  
**Reconciliation of Governmental Funds Statement of Revenues, Expenditures, and**  
**Changes in Fund Balance with Statement of Activities**  
**For the Year Ended December 31, 2022**

Total Net Change in Fund Balances - Governmental Funds	\$ 364,067
Revenue that will not be collected for several months after the City's year end are not considered available revenues in the governmental funds, and are instead considered deferred inflows.	74,457
Capital assets expensed as capital outlay in governmental fund statements, capitalized as capital assets in Statement of Net Position.	1,997,610
Depreciation expense reflected in entity wide statements, not reflected in governmental fund statements	(88,446)
Long-term borrowing is reported as revenue (other financing sources) in governmental funds, but these amounts increase long-term liabilities on the Statement of Net Position.	(2,313,000)
Accrued leave is reported in the government-wide statement of activities and changes in net position, but does not require the use of current financial resources; therefore, accrued leave is not reported as an expenditure in the government funds.	(2,963)
In the Statement of Activities, the cost of pension benefits earned net of employee contributions is reported as an element of pension expense. The fund financial statements report pension contributions as expenditures.	9,094
<b>Changes in Net Position-Governmental Funds</b>	<b>\$ <u>40,819</u></b>

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

**City of Milroy**  
**Statement of Net Position**  
**Proprietary Funds**  
**December 31, 2022**

	<b>Business-type Activities - Enterprise Funds</b>			
	<b>Sewer</b>	<b>Water</b>	<b>Non-Major Garbage</b>	<b>Total Enterprise Funds</b>
<b>ASSETS</b>				
<i>Current Assets</i>				
Cash and Cash Equivalents	\$ 129,673	\$ 121,960	\$ 40,806	\$ 292,439
Accounts Receivable	3,208	5,553	1,537	10,298
Special Assessments Receivable	443	997	458	1,898
<b>Total Current Assets</b>	<b>133,324</b>	<b>128,510</b>	<b>42,801</b>	<b>304,635</b>
<i>Noncurrent Assets</i>				
Depreciable, Net	35,611	192,658	--	228,269
<b>Total Assets</b>	<b>168,935</b>	<b>321,168</b>	<b>42,801</b>	<b>532,904</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred Pension Resources	5,390	5,390	--	10,780
<b>Total Deferred Outflows of Resources</b>	<b>5,390</b>	<b>5,390</b>	<b>--</b>	<b>10,780</b>
<b>LIABILITIES</b>				
<i>Current Liabilities</i>				
Accounts Payable	--	280	1,678	1,958
Accrued Interest Payable	--	1,607	--	1,607
Bonds Payable-due within one year	--	31,000	--	31,000
<b>Total Current Liabilities</b>	<b>--</b>	<b>32,887</b>	<b>1,678</b>	<b>34,565</b>
<i>Noncurrent Liabilities</i>				
Accrued Leave	1,326	1,326	--	2,652
Bonds Payable-due beyond one year	--	95,000	--	95,000
Net Pension Liability	17,503	17,503	--	35,006
<b>Total Liabilities</b>	<b>18,829</b>	<b>146,716</b>	<b>1,678</b>	<b>167,223</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred Pension Resources	6,890	6,890	--	13,780
<b>Total Deferred Inflows of Resources</b>	<b>6,890</b>	<b>6,890</b>	<b>--</b>	<b>13,780</b>
<b>NET POSITION</b>				
Net Investment in Capital Assets	35,610	66,658	--	102,268
<i>Unrestricted</i>	112,996	106,294	41,123	260,413
<b>Total Net Position</b>	<b>\$ 148,606</b>	<b>\$ 172,952</b>	<b>\$ 41,123</b>	<b>\$ 362,681</b>

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

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

	<b>Business-type Activities - Enterprise Funds</b>			<b>Total Enterprise Funds</b>
	<b>Sewer</b>	<b>Water</b>	<b>Non-Major Garbage</b>	
<b>Operating Revenues</b>				
Charges for Services	\$ 11,015	\$ 45,631	\$ 18,707	\$ 75,353
Improvement Fees	28,377	46,987	--	75,364
Special Assessments	167	376	173	716
<b>Total Operating Revenues</b>	<b>39,559</b>	<b>92,994</b>	<b>18,880</b>	<b>151,433</b>
<b>Operating Expenses</b>				
Sewer Operations	3,605	--	--	3,605
Water Operations	--	23,968	--	23,968
Garbage Operations	--	--	14,727	14,727
Depreciation	6,343	24,976	--	31,319
Salaries and Wages	16,880	16,880	--	33,760
Payroll Taxes and Benefits	2,561	2,561	--	5,122
Dues/Conferences/Training	716	843	--	1,559
Office Supplies and Expenses	629	670	--	1,299
Telephone	160	162	--	322
Utilities	3,464	2,853	--	6,317
Repairs and Maintenance	2,009	5,292	--	7,301
Shop Supplies	81	2,874	--	2,955
<b>Total Operating Expenses</b>	<b>36,448</b>	<b>81,079</b>	<b>14,727</b>	<b>132,254</b>
<b>Operating Income (Loss)</b>	<b>3,111</b>	<b>11,915</b>	<b>4,153</b>	<b>19,179</b>
<b>Non-Operating Revenues (Expenses)</b>				
Other	74	74	--	148
Interest Expense	--	(3,777)	--	(3,777)
Bond Issuance Costs	--	(395)	--	(395)
Pension (Expense) Recovered	2,268	2,268	--	4,536
<b>Net Non-Operating Revenues (Expenses)</b>	<b>2,342</b>	<b>(1,830)</b>	<b>--</b>	<b>512</b>
<b>Income Before Contributions and Transfers</b>	<b>5,453</b>	<b>10,085</b>	<b>4,153</b>	<b>19,691</b>
Transfers from Other Funds	--	19,000	--	19,000
Transfers to Other Funds	(19,000)	--	--	(19,000)
<b>Change In Net Position</b>	<b>(13,547)</b>	<b>29,085</b>	<b>4,153</b>	<b>19,691</b>
<i>Net Position at Beginning of Period</i>	162,153	143,867	36,970	342,990
<b>Net Position at End of Period</b>	<b>\$ 148,606</b>	<b>\$ 172,952</b>	<b>\$ 41,123</b>	<b>\$ 362,681</b>

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

**City of Milroy**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended December 31, 2022**

	<b>Business-type Activities - Enterprise Funds</b>			<b>Total Enterprise Funds</b>
	<b>Major</b>		<b>Non-Major Garbage</b>	
	<b>Sewer</b>	<b>Water</b>		
<b>Cash Flows from Operating Activities:</b>				
Cash Received from Customers	\$ 38,583	\$ 93,186	\$ 18,604	\$ 150,373
Cash Received from Other Sources	167	-	-	167
Cash Paid to Employees	(16,910)	(16,910)		(33,820)
Cash Paid for Goods and Services	(13,225)	(39,108)	(14,735)	(67,068)
Net Cash Provided (Used) by Operating Activities	<u>8,615</u>	<u>37,168</u>	<u>3,869</u>	<u>49,651</u>
<b>Cash Flows from Non-Capital Financing Activities:</b>				
Operating Transfers In (Out)	(19,000)	19,000	-	-
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(19,000)</u>	<u>19,000</u>	<u>-</u>	<u>-</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>				
Bond Costs	-	(395)	-	(395)
Principal Paid on Bond	-	(30,000)	-	(30,000)
Interest Paid on Bond	-	(4,159)	-	(4,159)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>-</u>	<u>(34,554)</u>	<u>-</u>	<u>(34,554)</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<u>(10,385)</u>	<u>21,614</u>	<u>3,869</u>	<u>15,097</u>
Cash and Cash Equivalents - Beginning of Year	140,058	100,346	36,938	277,342
<b>Cash and Cash Equivalents - End of Year</b>	<u><u>\$ 129,673</u></u>	<u><u>\$ 121,960</u></u>	<u><u>\$ 40,806</u></u>	<u><u>\$ 292,439</u></u>

Reconciliation of Net Income to Net Cash Provided (Used) by Operating Activities

<b>Cash Flows From Operating Activities:</b>				
Operating Income (Loss)	\$ 3,111	\$ 11,915	\$ 4,153	\$ 19,179
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities				
Depreciation	6,343	24,976	-	31,319
Changes in Assets and Liabilities:				
Accounts Receivable	(642)	568	(103)	(177)
Special Assessments Receivable	(167)	(376)	(173)	(716)
Accounts Payable	-	115	(8)	107
Accrued Leave	(30)	(30)	-	(60)
<b>Net Cash Provided (Used) by Operating Activities</b>	<u><u>\$ 8,615</u></u>	<u><u>\$ 37,168</u></u>	<u><u>\$ 3,869</u></u>	<u><u>\$ 49,651</u></u>

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

**City of Milroy**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual**  
**General Fund**  
**For the Year Ended December 31, 2022**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>Over (Under)</u> <u>Final to Actual</u>
<b>Revenues</b>				
Property Taxes	\$ 196,500	\$ 196,500	\$ 194,773	\$ (1,727)
Licenses and Permits	1,000	1,000	2,145	1,145
Local Government Aid	64,981	64,981	64,981	--
Federal Grants	--	--	12,950	12,950
PERA Aid	241	241	--	(241)
Fire Aid	4,000	4,000	10,103	6,103
Interest Revenue	500	500	848	348
Insurance Dividends	2,000	2,000	1,648	(352)
Miscellaneous	500	500	3,353	2,853
<b>Total Revenues</b>	<u>269,722</u>	<u>269,722</u>	<u>290,801</u>	<u>21,079</u>
<b>Other Financing Sources</b>				
Proceeds from Loans	--	--	2,213,000	2,213,000
<b>Total Revenues and Other Financing Sources</b>	<u>269,722</u>	<u>269,722</u>	<u>2,503,801</u>	<u>2,234,079</u>
<b>Expenditures</b>				
<b>General Government:</b>				
Mayor and Council Salaries	4,800	4,800	5,150	(350)
Clerk-Treasurer Salaries	55,000	55,000	52,045	2,955
Clerk-Treasurer Payroll Taxes and Benefits	11,522	11,522	11,484	38
Employee Health Insurance	29,449	29,449	27,861	1,588
Assessor Salaries	2,207	2,207	2,484	(277)
Tax Abatement	16,500	16,500	16,500	--
Travel	1,500	1,500	949	551
Bonds and Insurance	16,000	16,000	17,660	(1,660)
Professional Fees	15,500	15,500	13,914	1,586
Property Taxes/Ditch Lien	425	425	405	20
Dues/Conferences/Training	2,450	2,450	3,204	(754)
Office Supplies	2,350	2,350	3,853	(1,503)
Telephone	4,000	4,000	3,480	520
Utilities	11,000	11,000	9,370	1,630
Building Repairs and Maintenance	850	850	1,397	(547)
Miscellaneous	800	800	1,430	(630)
Capital Outlay	500	500	--	500
Election Expenditures	1,500	1,500	1,319	181

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



**City of Milroy**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual**  
**General Fund**  
**For the Year Ended December 31, 2022**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>Over (Under)</u> <u>Final to Actual</u>
<b>Public Safety:</b>				
First Responders	500	500	500	--
Ambulance Dues	1,000	1,000	1,000	--
State Relief Association Aid	4,000	4,000	10,103	(6,103)
<b>Public Works:</b>				
Salaries	18,000	18,000	16,915	1,085
Payroll Taxes and Benefits	2,700	2,700	2,563	137
Shop Supplies	1,800	1,800	3,148	(1,348)
Shop Utilities	7,660	7,660	9,588	(1,928)
Repairs and Maintenance	2,600	2,600	1,800	800
Sealcoating & Crack filling	13,000	13,000	3,485	9,515
Vehicle Operating Expenditures	5,900	5,900	4,973	927
Miscellaneous	5,584	5,584	2,822	2,762
Capital Outlay	21,000	21,000	1,967,815	(1,946,815)
<b>Culture and Recreation:</b>				
Salaries	250	250	64	186
Repairs and Maintenance	200	200	227	(27)
Utilities	600	600	418	182
Supplies/Miscellaneous	2,000	2,000	453	1,547
Capital Outlay	2,000	2,000	--	2,000
<b>Total Expenditures</b>	<u>265,147</u>	<u>265,147</u>	<u>2,198,379</u>	<u>(1,933,232)</u>
<b>Other Financing Uses</b>				
Transfers to Other Funds	9,500	9,500	254,685	(245,185)
<b>Total Expenditures and Other Financing Uses</b>	<u>274,647</u>	<u>274,647</u>	<u>2,453,064</u>	<u>(2,178,417)</u>
<b>Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses</b>				
	<u>(4,925)</u>	<u>(4,925)</u>	<u>50,737</u>	<u>55,662</u>
<b>Net Change in Fund Balance</b>	<b>(4,925)</b>	<b>(4,925)</b>	<b>50,737</b>	<b>55,662</b>
<i>Fund Balance at Beginning of Period</i>	273,655	273,655	273,655	--
<b>Fund Balance at End of Period</b>	<b>\$ 268,730</b>	<b>\$ 268,730</b>	<b>\$ 324,392</b>	<b>\$ 55,662</b>

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

**City of Milroy**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual**  
**Fire**  
**For the Year Ended December 31, 2022**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>Over (Under)</u> <u>Final to Actual</u>
<b>Revenues</b>				
Refunds and Reimbursements	\$ --	\$ --	\$ 18,248	\$ 18,248
Interest Revenue	300	300	329	29
Miscellaneous	250	250	3,000	2,750
Supplemental Benefits	--	--	3,131	3,131
User charges	15,750	15,750	16,546	796
<b>Total Revenues</b>	<u>16,300</u>	<u>16,300</u>	<u>41,254</u>	<u>24,954</u>
<b>Other Financing Sources</b>				
Transfers from Other Funds	3,500	3,500	9,500	6,000
<b>Total Revenues and Other Financing Sources</b>	<u>19,800</u>	<u>19,800</u>	<u>50,754</u>	<u>30,954</u>
<b>Expenditures</b>				
Salaries	2,000	2,000	1,921	79
Payroll Taxes	210	210	185	25
Professional Fees	2,500	2,500	3,427	(927)
Dues/Conferences/Training	800	800	5,084	(4,284)
Supplies	1,475	1,475	2,729	(1,254)
Supplemental Benefits	--	--	3,131	(3,131)
Repairs/Maintenance	3,000	3,000	3,871	(871)
Civil Defense Per Diem	500	500	500	--
Utilities	100	100	98	2
Capital Outlay	2,000	2,000	29,795	(27,795)
<b>Total Expenditures</b>	<u>12,585</u>	<u>12,585</u>	<u>50,741</u>	<u>(38,156)</u>
<b>Other Financing Uses</b>				
<b>Total Expenditures and Other Financing Uses</b>	<u>12,585</u>	<u>12,585</u>	<u>50,741</u>	<u>(38,156)</u>
<b>Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses</b>	<u>7,215</u>	<u>7,215</u>	<u>13</u>	<u>(7,202)</u>
<b>Net Change in Fund Balance</b>	<u>7,215</u>	<u>7,215</u>	<u>13</u>	<u>(7,202)</u>
<i>Fund Balance at Beginning of Period</i>	177,505	177,505	177,505	--
<b>Fund Balance at End of Period</b>	<u>\$ 184,720</u>	<u>\$ 184,720</u>	<u>\$ 177,518</u>	<u>\$ (7,202)</u>

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

**CITY OF MILROY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Government Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. Although the City has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the City has not chosen to do so.

The more significant accounting policies established by GAAP and used by the City are discussed below.

**A. REPORTING ENTITY**

The City of Milroy, Minnesota (the City) is a municipal corporation, incorporated under the laws of the State of Minnesota, and governed under a charter adopted. The City was formed and operates pursuant to applicable Minnesota laws and statutes. The City operates under an elected Mayor and four member council form of government. The council has control over all activities related to the City of Milroy. The City provides the following services: sanitation, recreation, public improvements, planning and zoning, and general administrative services.

These financial statements present the City (the primary government), which has no component units. The City follows the standards promulgated by GASB Statement No. 14, *The Financial Reporting Entity*, and GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus* to define the reporting entity. The City includes all component units of which the City appointed a voting majority of the unit's board; the City is either able to impose its will on the unit or a financial benefit or burden relationship exists.

**Blended Component Unit**

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

**CITY OF MILROY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**A. REPORTING ENTITY (Continued)**

**Discretely Presented Component Units**

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

**Related Organization**

A related organization is excluded from the financial reporting entity. The City's accountability does not extend beyond the Mayor, Clerk-Treasurer and Fire Chief being ex officio members of the board. The related organization is as follows:

Milroy Fire Relief Association – The Association is organized as a non-profit organization by its members to provide pension and other benefits to members in accordance with Minnesota statutes. The Association's Board of Directors consists of seven members elected by the membership of the Association and three ex officio members, the Mayor, Clerk-Treasurer and Fire Chief. All funding is obtained in accordance with Minnesota statutes whereby state aids and tax levies, which are determined by the Association, flow through the City to the Association. The Association pays benefits directly to its members.

**B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

The government-wide financial statements (i.e. the statement of net position and statement of activities) report information on all 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. They include all funds of the reporting entity except for fiduciary funds (of which, the City has none).

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

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

**CITY OF MILROY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION**

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

Governmental fund financial statements (i.e., balance sheet and statement of revenues, expenditures and changes in fund balances) 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. Revenues subject to accrual are property taxes, interest on investments, and intergovernmental revenues. Property taxes are recorded as revenues in the fiscal year in which they are levied, provided they are collected in the current period or within sixty days thereafter. Interest on invested funds is recognized when earned. Intergovernmental revenues that are reimbursements for specific expenditures are recognized when all eligibility requirements are met. 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.

The emphasis in fund financial statements is on major funds in either the governmental or business-type activities categories. GASB No. 34 sets forth minimum criteria (percentage of assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds. The non-major funds are combined in a column on the fund financial statements.

The funds of the financial reporting entity are described below:

Governmental Funds:

General Fund - The General Fund is the primary operating fund of the City and is always classified as a major fund. It is used to account for all financial resources not accounted for and reported in another fund.

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service and capital projects. The city maintains fire, economic development and fitness center special revenue funds.

**CITY OF MILROY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION (Continued)**

Debt Service Fund - The Debt Service Fund is used to account for all financial resources that are restricted, committed, or assigned to expenditure for principal and interest. Special assessments are used for the payment of principal and interest.

Proprietary Funds:

Enterprise Funds - Enterprise Funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector. The City maintains water, sewer and garbage enterprise funds.

The City reports the following major governmental funds:

The *General Fund* is the City's primary operating fund. It accounts for all financial resources not accounted for and reported in another fund.

The *Fire Fund* accounts for all activities of the fire fund.

The *2022 Tax Abatement* fund accounts for the financial resources for principal and interest payments.

The City reports the following major proprietary funds:

The *Water Fund* accounts for the operations of the City's water system.

The *Sewer Fund* accounts for the operations of the City's sewer system.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent they do not conflict or contradict guidance of the GASB. Governments also have the option of following subsequent private sector guidance for their business-type activities and enterprise funds. The City has elected not to follow subsequent private sector guidance.

As a general rule the effect of inter-fund activity has been eliminated from the government-wide financial statements. Exceptions to this rule are charges between the City's enterprise funds and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

**CITY OF MILROY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION (Continued)**

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. General revenues include all taxes.

Proprietary funds distinguish operating revenues and expense from non-operating 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 of capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

**D. ASSETS, LIABILITIES, AND NET POSITION or FUND BALANCE**

**Deposits and Investments**

For the purposes of the statement of cash flows, the City considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents. Cash and investments of the proprietary fund types are pooled with the City's pooled cash and investments.

**Receivables and Payables**

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

**CITY OF MILROY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. ASSETS, LIABILITIES, AND NET POSITION or FUND BALANCE (Continued)**

**Receivables and Payables (Continued)**

All trade (utility) and property tax receivables are shown at a gross amount, since both taxes and trade (utility) receivables are assessable to the property taxes and are collectible upon sale of the assessed property.

The City levies its property tax for the subsequent year during the month of October. Property taxes attach as an enforceable lien on property as of January 1. Revenues are accrued and recognized in the year collectible.

December 31 is the last day the City can certify a tax levy to the County Auditor for collection the following year. The County Auditor makes up the tax list for all taxable property in the City and applies the applicable tax rate to the tax capacity of individual properties to arrive at the actual tax for each property. The County Auditor also collects all special assessments, except for certain prepayments paid directly to the City. Assessments receivable consist of the portion of improvements made by the City and charged against the properties affected.

These assessments are payable with interest over a period of years. The County Auditor remits a list of taxes and special assessments to be collected on each parcel of property to the County Treasurer in January each year. The County Treasurer mails copies of all real estate and personal property tax statements.

Real property taxes may be paid in two equal installments. The first payment is due on May 15 for both non-agricultural and agricultural property and the second payment is due on October 15 for non-agricultural property and November 15 for agricultural property. Personal property taxes may be paid on May 15 and October 15. The County is the collection agent for the levy. The County provides tax settlements to cities and other taxing districts three times a year in January, June, and December. Penalties and interest are assessed to property owners who do not pay their property taxes and special assessments by the due dates.

Portions of the tax levy paid by the state in the form of fair value assistance are included in intergovernmental revenue. Only that portion collected directly from property owners is reflected in tax revenue. Delinquent property taxes are deferred and recognized when received or in the hands of the collection agency in the fund financial statements since they do not constitute "available spendable resources". In the government-wide financial statements, under the accrual basis of accounting, they are recognized as revenues since they are earned. No allowance for uncollectible taxes has been provided because such amounts are not expected to be material.



**CITY OF MILROY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. ASSETS, LIABILITIES, AND NET POSITION or FUND BALANCE (Continued)**

**Prepays**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. Prepaid expenditures of governmental funds are reported using the consumption method and recorded as expenditures/expenses at the time of consumption.

**Capital Assets**

Capital assets are defined by the City as assets with an initial individual cost of \$1,000 or more and an estimated life in excess of one year. Capital assets include property, plant, equipment, infrastructure assets (i.e., roads, bridges, sidewalks, drainage, and similar items), and intangible assets (i.e. internally generated computer software) are reported in the application governmental or business-type activities column of the government-wide financial statements.

Purchased or constructed assets are recorded at actual cost or estimated historical cost if actual cost is unavailable. Donated capital assets are recorded at estimated fair value at the date of donation.

GASB No. 34 required that the City report and depreciate new infrastructure assets effective fiscal year ending December 31, 2004. Infrastructure assets used in general government operations, consisting of certain improvements other than buildings, including roads, bridges, sidewalks, drainage systems, and lighting systems, acquired prior to December 31, 2003, were not required to be capitalized by the City. These infrastructure assets are likely to be the largest asset class of the City. Neither the historical cost nor related depreciation has historically been reported in the financial statements. The retroactive reporting of infrastructure is not required for cities of this size. City has elected not to record infrastructure values retroactively as allowed by accounting principles generally accepted in the United States of America.

**CITY OF MILROY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. ASSETS, LIABILITIES, AND NET POSITION or FUND BALANCE (Continued)**

**Capital Assets (Continued)**

The accounting and reporting treatment applied to capital assets associated with a fund are determined by the fund's measurement focus. General capital assets are assets of the City as a whole. When purchased, such assets are recorded as expenditures in a governmental fund and capitalized as assets in the governmental activities column of the government-wide statement of net position.

Capital assets of the enterprise funds are capitalized in the funds.

Additions, improvements, and other capital outlay that significantly extend the useful life of an asset are capitalized. The costs of normal maintenance and repairs that do not add to the value of an asset or materially extend lives are not capitalized.

In the government-wide financial statements and in the enterprise fund financial statements, the cost of property sold or retired, together with the related accumulated depreciation, is removed and any resulting gain or loss is included in income.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided using the straight-line method over the following estimated useful lives of the assets:

Land	Not Depreciated
Infrastructure	15-65 Years
Buildings	10-50 Years
Improvements	15-50 Years
Machinery and Equipment	3-20 Years

**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 premium and discounts, as well as issuance costs, are recognized as an outflow of resources and expensed in the period they are incurred. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported separately and expensed in the period they are incurred.

**CITY OF MILROY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. ASSETS, LIABILITIES, AND NET POSITION or FUND BALANCE (Continued)**

**Long-Term Obligations (Continued)**

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

**Compensated Absences**

The City’s policies regarding vacation time permit employees to accumulate earned but unused annual leave. The liability for these compensated absences is recorded as long-term debt in the government-wide financial statements and the proprietary fund types. In the governmental funds of the fund financial statements, annual leave is recorded as expenditures and accrued as a current liability only if they have matured, for example, as a result of employee’s resignations and retirements. These are liquidated according to the fund they relate to.

Annual leave is accrued as follows:

<u>Years of Service</u>	<u>Annual Accrual Rates</u>
1	1.5 hours per pay period
2-5	4 hours per pay period
6-8	6 hours per pay period
9-12	8 hours per pay period
13-17	10 hours per pay period
18+	12 hours per pay period

Regular part-time employees will accrue annual leave based on length of service with the City. Employees can carry over any annual leave up to two times the amount earned in a year.

**Fund Balance Classifications**

The City implemented GASB Statement No. 54, “Fund Balance Reporting and Governmental Fund Type Definitions.” This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government’s fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

**CITY OF MILROY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. ASSETS, LIABILITIES, AND NET POSITION or FUND BALANCE (Continued)**

**Fund Balance Classifications (Continued)**

- Nonspendable fund balance – consists of amounts that cannot be spent because it is not in spendable form, such as inventory; or are legally or contractually required to be maintained intact.
- Restricted fund balance – consists of amounts related to externally imposed constraints established by creditors, grantors or contributors, bondholders, laws and regulations of other governments; or imposed by law through constitutional provisions or enabling legislation.
- Committed fund balance - consists of amounts that are constrained for specific purposes that are internally imposed by formal action (resolution) of the City Council. To be reported as committed, amounts cannot be used for any other purpose unless the City Council removes or changes that specified use by taking the same type of action it employed to previously commit those amounts.
- Assigned fund balance – consists of amounts intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In the General Fund, assigned amounts represent intended uses established by the governing body itself or by an official to which the governing body delegates the authority.
- Unassigned fund balance – consists of amounts that are available for any purpose. Positive amounts are reported only in the general fund. It also reflects negative residual amounts in other funds.

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

The City Council has formally adopted a fund balance policy for the General Fund. The City’s policy is to maintain a minimum unassigned fund balance between the range of 35%-50% of budgeted operating expenditures for cash flow timing needs. At December 31, 2022, the unassigned fund balance of the General Fund was 62% of the subsequent year’s budgeted expenditures.

**Net Position Classifications**

In the government-wide financial statements, net position represents the difference between assets and liabilities. Net position is displayed in three components:

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

**CITY OF MILROY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. ASSETS, LIABILITIES, AND NET POSITION or FUND BALANCE (Continued)**

**Deferred Outflows/Inflows of Resources**

The City of Milroy implemented GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position and GASB Statement No. 65 Items Previously Reported as Assets and Liabilities. In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City of Milroy currently recognizes deferred outflows relating to pensions for reporting in this category. The length of the expense recognition period for deferred amounts related is equal to the average of the expected remaining service lives of all employees that are provided with pensions through the pension plan, determined as of the beginning of the measurement period.

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, represent an acquisition of net position that applies to a future period and so will not be recognized as an inflows of resources (revenue) until that time. The City of Milroy has two types of items that qualify for reporting in this category; unearned property taxes and deferred inflows relating to pensions. These amounts are deferred and recognized as inflows of resources in the period that the amount is earned. Deferred amounts relating to pensions represent differences between projected and actual earnings on pension plan investments and are recognized over a five-year period.

**E. USE OF ESTIMATES**

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**CITY OF MILROY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**F. 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. Pensions are allocated between governmental activities and business-type activities in accordance with the allocation of employee's wages. Approximately 66% is allocated to governmental and 34% to business-type.

**NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. BUDGETARY INFORMATION**

**Budgets**

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are legally adopted by Council resolution for the General Fund. Budgets have not been adopted for the major Small Cities Development Special Revenue Fund as prescribed by Government Auditing Standards.

The City follows these legal compliance procedures in establishing the budgetary data reflected in the financial statements:

1. The department heads submit to the city clerk a budget of estimated expenditures for the ensuing year after which the City Clerk subsequently submits a budget of estimated expenditures and revenues to the City Council by August 15.
2. Upon receipt of the budget estimates, the Council holds a public hearing on the proposed budget. Information about the budget ordinance is then published in the official newspaper of the City.
3. At least ten days prior to October 1, the budget is legally enacted through the passage of an ordinance. The City Clerk is authorized to transfer budgeted amounts between line items and departments within any fund; however, any revision that alters the total expenditures of any fund must be approved by the City Council.
4. Budgeted amounts are as originally adopted by the City Council. All supplemental appropriations require the approval of the City Council. There were no amendments to the original appropriations. The City prepared and adopted a legal budget.
5. All budgeted appropriations lapse at the end of the year. The legal level of budgetary control is at the functional level.

**CITY OF MILROY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022**

**NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)**

**A. BUDGETARY INFORMATION (Continued)**

All budget amounts presented reflect the original budget and the final budget (which have been adjusted for legally authorized revisions of the annual budgets during the year). The General Fund utilized the same basis of accounting for both budgetary purposes and actual results. The City does not utilize encumbrance accounting.

**B. FUND BALANCE CLASSIFICATION**

At December 31, 2022, a summary of the governmental fund balance classifications are as follows:

	General Fund	Fire Fund	2022 Tax Abatement Fund	Other Governmental Funds	Totals
Nonspendable:					
Prepaid items	\$ 8,069	\$ -	\$ -	\$ -	\$ 8,069
Restricted:					
Small Cities Assistance	12,197	-	-	-	12,197
American Recovery Plan	25,900	-	-	-	25,900
Debt Service	-	-	307,181	-	307,181
Committed to:					
Capital Acquisition	29,310	142,915	-	2,263	174,488
Sealcoating/Crack filling	81,905	-	-	-	81,905
Assigned:					
Fire	-	34,603	-	-	34,603
Economic Development	-	-	-	50,752	50,752
Unassigned	167,011	-	-	-	167,011
Total Fund Balances	<u>\$ 324,392</u>	<u>\$ 177,518</u>	<u>\$ 307,181</u>	<u>\$ 53,015</u>	<u>\$ 862,106</u>

**C. EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

The following fund had excess expenditures over appropriations as of December 31, 2022:

General Fund	\$1,933,232
Fire Fund	\$38,156

**D. DEFICIT FUND BALANCES**

There were no funds with a deficit fund balances as of December 31, 2022.

**CITY OF MILROY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022**

**NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)**

**E. DEBT RESTRICTIONS AND COVENANTS**

**General Obligation Debt**

Minnesota Statutes §475.53, subd. 3 limits the amount of outstanding general obligation bonded debt of the municipality. The City complies with such laws.

**NOTE 3. DETAIL NOTES ON ALL FUNDS**

**A. DEPOSITS AND INVESTMENTS**

The City maintains a pooled cash and investment portfolio that is used by substantially all City funds using the pooled deposit and investment concept. This concept provides the City with the ability to maximize earnings on idle monies while ensuring the liquidity needs of each fund are met and the integrity of the cash balances of each fund are preserved. This pool is governed by an investment policy established by the City Council.

Investment income derived from the pooled funds is allocated to respective funds on the basis of applicable cash balance participation by each fund.

**Deposits**

In accordance with Minnesota Statutes, the City maintains deposits at those depository banks authorized by the City Council, all of which are members of the Federal Reserve System.

Minnesota Statutes require that all City deposits be insured, protected by surety bond or collateralized, and the fair value of collateral pledged must equal 110% of the deposits not covered by insurance or surety bonds.

Authorized collateral includes all treasury bills, notes, and bonds; issues of U.S. governmental agencies; general obligations rated "A" or better; revenue obligations rated "AA" or better; irrevocable standard letters of credit issued by the Federal Home Loan Bank and certificates of deposit. Minnesota statutes also require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral. The City does not have any deposit policies that would further limit deposit choices.



**CITY OF MILROY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022**

**NOTE 3. DETAIL NOTES ON ALL FUNDS (Continued)**

**A. DEPOSITS AND INVESTMENTS (Continued)**

**Deposits**

According to Minnesota Statutes, government depositors receive \$250,000 FDIC coverage for their demand accounts and separate \$250,000 FDIC coverage for their time/savings accounts if the bank is located in the same state as the government entity. If the depository bank is located in a different state, there is just one \$250,000 coverage available for all demand and time/savings accounts combined.

*Custodial Credit Risk – Deposits* - Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. Deposits in financial institutions, reported as components of cash and cash equivalents, had a bank balance of \$1,296,553 at December 31, 2022, that was fully insured by depository insurance or secured with collateral held by the City's agent in its name. The carrying amount of these deposits at December 31, 2022 was \$1,293,582.

**Investment Policy**

The City has an adopted investment policy, conforming to all applicable laws of the State of Minnesota, which serves as the guide to deposit and investment of operating funds which are managed within the City's pooled cash and investment portfolio. This policy sets for the City's investment objectives as well as authorized and suitable deposits and investments, and serves as a guide to proper diversification, maturity constraints, internal controls, and performance measurement. The foremost objective of the City's investment program as set forth by the investment policy is preservation of capital and protection of investment principal. Investment decisions are made under the assumption that except under limited circumstances, all investments within the pooled cash portfolio will be held to maturity.

Separate investment policies or agreements may exist to address proceeds from certain bond issues or debt service funds in accordance with arbitrage rebate requirements.

The City is authorized by Minnesota Statutes to invest idle funds as follows:

- a.) Direct obligations or obligations guaranteed by the United States or its agencies.
- b.) Shares of investment companies registered under the Federal Investment Company Act of 1940 and whose only investments are in securities described in (a) above.
- c.) General obligations of the State of Minnesota or its municipalities.
- d.) Bankers acceptances of United States banks eligible for purchase by the Federal Reserve System
- e.) Commercial paper issued by United States corporations or their Canadian subsidiaries, rated of the highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less;

**CITY OF MILROY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022**

**NOTE 3. DETAIL NOTES ON ALL FUNDS (Continued)**

**A. DEPOSITS AND INVESTMENTS (Continued)**

**Investment Policy**

- f.) Repurchase or reverse repurchase agreements and securities lending agreements with financial institutions qualified as a “depository” by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers
- g.) Money market funds with institutions that have portfolios consisting exclusively of United States Treasury obligations and Federal Agency issues.
- h.) Guaranteed investment contract (GIC’s) issued or guaranteed by United States Commercial Banks or domestic branches of foreign banks or United State insurance company and with a credit quality in one of the top two highest categories.

The City does not have any investment policies that would further limit investment choices.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of the investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. Under the City’s investment policy the City is required to mitigate its exposure to interest rate risk as follows:

- Purchasing a combination of shorter and longer term investments.
- Timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needs for operation.
- Monitoring the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio.
- Unless matched to a specific cash flow requirement, the City will not directly invest in securities maturing more than five (5) years from the date of purchase.
- The average weighted maturity of the portfolio should not exceed three (3) years.
- Reserve funds may be invested in securities exceeding five (5) years if the maturity of such investments are made to coincide as nearly as practicable with expected use of funds.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The investment policy of the City limits their investment options to those authorized by the State of Minnesota as described above.

**CITY OF MILROY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022**

**NOTE 3. DETAIL NOTES ON ALL FUNDS (Continued)**

**A. DEPOSITS AND INVESTMENTS (Continued)**

**Investment Policy (Continued)**

Concentrations of Credit Risk

The risk of loss attributed to the magnitude of the City's investments in a single issuer. The City places no limit on the amount that may be invested in any one issuer. As of December 31, 2022 the City had no investments.

Custodial Credit Risk

For an investment, this is the risk that in the event of the failure of the counterparty, the City will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. As of December 31, 2022 the City had no investments.

**B. ACCOUNTS RECEIVABLE**

Accounts receivable of the business-type activities consist of utilities receivable. No allowance for uncollectible accounts is deemed necessary at year end.

Accounts receivable of the governmental activities consist almost entirely of delinquent taxes and special assessments. The balance as of December 31, 2022 is \$5,708 and \$72,724, respectively. Delinquent taxes and special assessments have been offset by deferred inflows of resources for delinquent taxes and special assessments not received within 60 days after year-end in the governmental fund financial statements. The deferred inflow amount as of December 31, 2022 is \$78,049.

**CITY OF MILROY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022**

**NOTE 3. DETAIL NOTES ON ALL FUNDS (Continued)**

**C. CAPITAL ASSETS**

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

<b>Governmental Activities:</b>	Balance 1/1/2022	Additions	Deletions	Balance 12/31/2022
Capital Assets Not Being Depreciated:				
Land	\$ 27,987	\$ -	\$ -	\$ 27,987
Total Capital Assets Not Being Depreciated	<u>27,987</u>	<u>-</u>	<u>-</u>	<u>27,987</u>
Capital Assets Being Depreciated:				
Buildings and Improvements	397,246	1,967,815	-	2,365,061
Machinery and Equipment	842,220	29,795	8,000	864,015
Total Capital Assets Being Depreciated	<u>1,239,466</u>	<u>1,997,610</u>	<u>8,000</u>	<u>3,229,076</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	231,622	45,763	-	277,385
Machinery and Equipment	630,207	42,683	8,000	664,890
Total Accumulated Depreciation	<u>861,829</u>	<u>88,446</u>	<u>8,000</u>	<u>942,275</u>
Total Capital Assets Being Depreciated, Net	<u>377,637</u>			<u>2,286,801</u>
Governmental Activity Capital Assets, Net	<u>\$ 405,624</u>			<u>\$2,314,788</u>
<b>Business-Type Activities:</b>	Balance 1/1/2022	Additions	Deletions	Balance 12/31/2022
Capital Assets Being Depreciated:				
Equipment and Improvements	\$ 646,367	\$0	\$0	\$ 646,367
Total Capital Assets Being Depreciated	<u>646,367</u>	<u>-</u>	<u>-</u>	<u>646,367</u>
Less Accumulated Depreciation for:				
Equipment and Improvements	386,779	31,319	-	418,099
Total Accumulated Depreciation	<u>386,779</u>	<u>31,319</u>	<u>-</u>	<u>418,099</u>
Total Capital Assets Being Depreciated, Net	<u>259,587</u>			<u>228,269</u>
Business-Type Activity Capital Assets, Net	<u>\$ 259,587</u>			<u>\$ 228,269</u>

Depreciation Expense was charged to functions/programs as follows:

<b>Governmental Activities:</b>		<b>Business-Type Activities:</b>	
General Government	\$ 640	Water	\$ 24,976
Public Safety	16,737	Garbage	-
Street and Highways	56,237	Sewer	<u>6,343</u>
Culture & Recreation	4,943	Total Depreciation Expense-	
Depreciation-Unallocated	<u>9,890</u>	Business-Type Activities	<u>\$ 31,319</u>
Total Depreciation Expense-			
Governmental Activities	<u>\$ 88,446</u>		

**CITY OF MILROY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022**

**NOTE 3. DETAIL NOTES ON ALL FUNDS (Continued)**

**D. ACCOUNTS PAYABLE**

Payables in the general, major governmental funds and enterprise funds are composed almost entirely of payables to vendors.

**E. LONG-TERM LIABILITIES**

Description of Long-Term Debt

Long-term debt is comprised of the following as of December 31, 2022:

<b>Issuance:</b>	<u>Original Issuance</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Debt Outstanding</u>
Governmental Activities				
Tax Abatement Bond, Series 2022A	\$2,313,000	07/12/2043	3.50%	\$ 2,313,000
Business-Type Activities:				
GO Utility Revenue Bond	451,000	02/01/2030	2.95%	<u>126,000</u>
Total Outstanding Long-term Debt				<u><u>\$ 2,439,000</u></u>

**General Obligation Bonds**

The City issues general obligation revenue bonds to provide funds for the acquisition and construction of major capital improvements. General obligation revenue bonds have been issued for the water fund, which is also the fund used to liquidate the debt. The bonds are direct obligations and pledge the full faith, credit and taxing power of the City. Interest paid in 2022 was \$5,030.

**Temporary Financing Agreement**

During 2022, the City entered into a temporary financing agreement through a private bank for funding the project costs of the 2022 Street Project. The agreement will provide interim financing of \$2,313,000 at an interest rate of 3.5%. Interest payments are due semi-annually. The current maturity date for the agreement is January 1, 2024. The agreement is expected to be permanently financed with United States Department of Agriculture – Rural Development upon completion of the project. Interest paid in 2022 was \$38,004.

Minimum Debt Payments

Minimum annual principal and interest payments to retire general obligation bonds payable are as follows:

**CITY OF MILROY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022**

**NOTE 3. DETAIL NOTES ON ALL FUNDS (Continued)**

**E. LONG-TERM LIABILITIES (Continued)**

December 31,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 31,000	\$ 41,264	\$ 72,264
2024	125,412	54,365	179,777
2025	128,514	51,305	179,819
2026	127,663	48,227	175,890
2027	99,860	45,587	145,447
2028-2032	534,033	193,202	727,235
2033-2037	596,877	130,358	727,235
2038-2042	667,116	60,119	727,235
2043	128,524	2,884	131,408
	<u>\$ 2,439,000</u>	<u>\$ 627,310</u>	<u>\$ 3,066,310</u>

Changes in Long-Term Liabilities

	<u>Balance</u>		<u>Balance</u>	<u>Due in</u>
	<u>12/31/21</u>	<u>Additions</u>	<u>12/31/22</u>	<u>One Year</u>
		<u>Reductions</u>		
Governmental Activities:				
Tax Abatement Bond, Series 2022A	\$ -	\$ 2,313,000	\$ 2,313,000	\$ -
Accrued Leave	9,073	8,241	12,036	-
Total Governmental Activities	9,073	2,321,241	2,325,036	-
Business-Type Activities:				
GO Utility Revenue Bond	156,000		126,000	31,000
Accrued Leave	2,712	3,280	2,652	-
Total Business-Type Activities	158,712	3,280	128,652	31,000
	<u>\$ 167,785</u>	<u>\$ 2,324,521</u>	<u>\$ 2,453,688</u>	<u>\$ 31,000</u>

**F. INTERFUND TRANSACTIONS**

Inter-fund Transfers

Transfers between funds of the primary government for the year ended December 31, 2022 were as follows:

<u>From</u>	<u>To</u>	<u>Purpose</u>	<u>Amount</u>
General	Fire	Operations	\$3,500
General	Fire	Truck Fund Contribution	\$6,000
Sewer	Water	Debt Payment	\$19,000
General	2022 Tax	Unspent Debt Proceeds	\$245,185

**CITY OF MILROY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022**

**NOTE 3. DETAIL NOTES ON ALL FUNDS (Continued)**

**F. INTERFUND TRANSACTIONS (Continued)**

Inter-fund Balances

At December 31, 2022, there were no inter-fund balances.

**NOTE 4. OTHER INFORMATION**

**A. RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. The City participates in the League of Minnesota Cities Intergovernmental Trust (LMCIT) to provide its general liability and property coverage. The LMCIT is a public entity risk pool currently operating as a common risk management and insurance program for participating Minnesota cities. All cities in the LMCIT are jointly and severally liable for all claims and expenses of the pool. The amount of any liability in excess of assets of the pool may be assessed to participating cities if a deficiency occurs. The LMCIT is self-sustaining through member premiums and re-insures through commercial companies for excess claims. The City is covered through the pool for any claims incurred but unreported, but retains risk for the deductible portion of its insurance policies.

As of December 31, 2022, the City did not have any claims which were probable and measurable and therefore no liability is recorded in the financial statements presented. The City has not had any claims which exceeded its deductible during the past three years.

The City continues to evaluate the effects of the COVID-19 pandemic, considering the facts and circumstances related to the impact of the virus on the City's industry and has concluded that while it is reasonably possibly that the virus could have a negative effect on the City's financial position, the specific impact is not readily determinable as of the date of these financial statements. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

**CITY OF MILROY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022**

**NOTE 4. OTHER INFORMATION (Continued)**

**B. COMMITMENTS AND CONTINGENCIES**

*Grant Program Involvement*

In the normal course of operations, the City participates in various federal or state grant/loan programs from year to year. The grant/loan programs are often subject to additional audits by agents of the granting or loaning authority, the purpose of which is to ensure compliance with the specific conditions of the grant or loan. Any liability for reimbursement, which may arise as the result of these audits cannot be reasonably determined at this time, although it is believed the amount, if any, would not be material.

*Litigation*

The City is party to various legal proceedings, which normally occur in the course of governmental operations. The financial statements do not include accrual or provisions for loss contingencies that may result from these proceedings.

While the outcome of potential litigation cannot be predicted, due to the insurance coverage maintained by the City, the City feels that the settlement or judgment not covered by insurance would not have a material adverse effect on the financial condition of the City.

**C. FEDERAL AIDS – SINGLE AUDIT ACT**

The City expended more than \$750,000 of federal financial assistance and is subject to the audit requirements of the Single Audit Act and all other federal audit requirements.

**D. TAX ABATEMENT**

The City is authorized to enter into property tax abatement agreements for the purpose of attracting or retaining businesses. Tax abatements for the Farmer's Cooperative Association of Milroy were approved by resolution in 2019. The abatement shall not exceed \$16,500 per year or a total of \$115,500 for a term of seven years commencing with taxes payable in 2020.



**CITY OF MILROY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022**

**NOTE 5. DEFINED BENEFIT PENSION PLANS – STATEWIDE**

**A. PLAN DESCRIPTION**

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

General Employees Retirement Plan

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

**B. BENEFITS PROVIDED**

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

General Employees Plan Benefits

General Employees Plan benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for Coordinated members is 1.2% for each of the first 10 years of service and 1.7% for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7% 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 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 1.0 percent and a maximum of 1.5 percent. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase. For recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a reduced prorated increase.

**CITY OF MILROY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022**

**NOTE 5. DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)**

**B. BENEFITS PROVIDED (Continued)**

General Employees Plan Benefits (Continued)

For members retiring on January 1, 2024, or later, the increase will be delayed until the normal retirement age (age 65 if hired prior to July 1, 1989, or age 66 for individuals hired on or after July 1, 1989). Members retiring under Rule of 90 are exempt from the delay to normal retirement.

**C. CONTRIBUTIONS**

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

General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.5 percent of their annual covered salary in fiscal year 2022; the City was required to contribute 7.50 percent for Coordinated Plan members. The City’s contributions to the General Employees Fund for the years ended December 31, 2022, 2021, and 2020 were \$7,708, \$7,111 and \$7,059, respectively. The City’s contributions were equal to the required contributions as set by the state statute.

**D. PENSION COSTS**

General Employee Fund Pension Costs

At December 31, 2022, the City reported a liability of \$102,959 for its proportionate share of the General Employee 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 \$2,933. 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. At June 30, 2022, the City’s proportion was 0.0013% which was no change from its proportion measured as of June 30, 2021.

Entity’s proportionate share of the net pension liability	\$102,959
State of Minnesota’s proportionate share of the net pension liability associated with the City	<u>2,933</u>
Total	<u>\$105,892</u>

**CITY OF MILROY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022**

**NOTE 5. DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)**

**D. PENSION COSTS (Continued)**

For the year ended December 31, 2022, the City recognized pension expense of \$15,826 for its proportionate share of General Employee Fund’s pension expense. In addition, the City recognized an additional \$438 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 Employee Plan’s deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences Between Expected and Actual Economic Experience	\$ 860	\$ 1,108
Changes in Actuarial Assumptions	23,302	451
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	2,076	-
Changes in Proportion	1,382	38,972
Employer Contributions Subsequent to the Measurement Date	4,087	-
Totals	<u>\$ 31,707</u>	<u>\$ 40,531</u>

\$4,087 reported as deferred outflows of resources related to pensions resulting from the City’s contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2023. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30,</u>	<u>Pension Expense Amount</u>
2023	(\$8,999)
2024	(\$9,940)
2025	(\$3,281)
2026	\$9,309

**CITY OF MILROY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022**

**NOTE 5. DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)**

**E. LONG-TERM EXPECTED RETURN ON INVESTMENT**

The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness 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 arithmetic real rates of return for each major asset class are summarized in the following table:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
Domestic Equity	33.5%	5.10%
International Equity	16.5%	5.30%
Fixed Income	25.0%	0.75%
Private Markets	25.0%	5.90%
Total	100%	

**F. ACTUARIAL METHODS AND ASSUMPTIONS**

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

Inflation is assumed to be 2.25 percent for the General Employees Plan. Benefit increases after retirement are assumed to be 1.25 percent.

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

Mortality rates for the General Employees Plan are based on the Pub-2010 General Employee Mortality Table. The tables are adjustment 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, 2022 actuarial evaluation.

**CITY OF MILROY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022**

**NOTE 5. DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)**

**F. ACTUARIAL METHODS AND ASSUMPTIONS (Continued)**

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

**General Employees Fund**

Changes in Actuarial Assumptions:

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

Changes in Plan Provisions:

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

**G. DISCOUNT RATE**

The discount rate used to measure the total pension liability in 2022 was 6.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at the 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.

**CITY OF MILROY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022**

**NOTE 5. DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)**

**H. PENSION LIABILITY SENSITIVITY**

The following presents the City’s proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the City’s proportionate share of the net pension liability would be if it were calculated using a discount rate one percentage point lower or one percentage point higher than the current discount rate:

	1% Decrease in Discount Rate (5.5%)	Current Discount Rate (6.5%)	1% Increase in Discount Rate (7.5%)
City’s proportionate share of the General Employees Fund net pension liability:	\$162,631	\$102,959	\$54,021

**I. PENSION PLAN FIDUCIARY NET POSITION**

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

**REQUIRED SUPPLEMENTARY INFORMATION  
OTHER THAN MD&A**

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

Fiscal Year	Employer's Proportion (Percentage) of the Net Pension Liability (Asset)	Employer's Proportionate Share (Amount) of the Net Pension Liability (Asset) (a)	State's Proportionate Share (Amount) of the Net Pension Liability Associated with the City (b)	Employer's Proportionate Share (Amount) of the Net Pension Liability and the State's Proportionate Share of the Net Pension Liability (a+b)	Employer's Covered-Employee Payroll (c)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll ((a+b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
6/30/22	0.0013%	\$102,959	\$2,933	\$105,892	\$95,778	110.56%	76.70%
6/30/21	0.0013%	\$55,516	\$1,772	\$57,288	\$94,616	60.55%	87.00%
6/30/20	0.0014%	\$83,936	\$2,511	\$86,447	\$96,674	89.42%	79.10%
6/30/19	0.0013%	\$71,874	\$2,333	\$74,207	\$93,930	79.00%	80.20%
6/30/18	0.0014%	\$77,666	\$2,467	\$80,133	\$91,452	87.62%	79.50%
6/30/17	0.0013%	\$82,991	\$1,074	\$84,065	\$86,218	97.50%	75.90%
6/30/16	0.0013%	\$105,554	\$1,465	\$107,019	\$83,067	128.83%	68.90%
6/30/15	0.0013%	\$67,373	\$0	\$67,373	\$78,566	85.75%	78.20%

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

\*\*For purposes of this schedule, covered employee payroll is defined as "pensionable wages".



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

Fiscal Year <u>Ending</u>	Statutorily Required <u>Contribution (a)</u>	Contributions in Relation to the Statutorily Required <u>Contribution (b)</u>	Contribution Deficiency <u>(Excess) (a-b)</u>	Covered- Employee <u>Payroll (d)</u>	Contributions as a Percentage of Covered-Employee <u>Payroll (b/d)</u>
December 31, 2022	\$7,708	\$7,708	-	\$102,777	7.50%
December 31, 2021	\$7,111	\$7,111	-	\$94,812	7.50%
December 31, 2020	\$7,059	\$7,059	-	\$94,116	7.50%
December 31, 2019	\$7,044	\$7,044	-	\$93,917	7.50%
December 31, 2018	\$7,244	\$7,244	-	\$96,592	7.50%
December 31, 2017	\$6,608	\$6,608	-	\$88,108	7.50%
December 31, 2016	\$6,409	\$6,409	-	\$85,450	7.50%
December 31, 2015	\$6,022	\$6,022	-	\$80,301	7.50%

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

\*\*For purposes of this schedule, covered employee payroll is defined as "pensionable wages".

**CITY OF MILROY**  
**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION**  
**DECEMBER 31, 2022**

**NOTE 1. DEFINED BENEFIT PENSION PLANS – STATEWIDE**

**General Employees Fund**

***2022 Changes***

Changes in Actuarial Assumptions:

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

***2021 Changes***

Changes in Actuarial Assumptions:

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

***2020 Changes***

Changes in Actuarial Assumptions:

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

**CITY OF MILROY**  
**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION**  
**DECEMBER 31, 2022**

Changes in Plan Provisions:

- Augmentation for current privatized members was reduced to 2.0% for the period July 1, 2020 through December 31, 2023 and 0.0% after. Augmentation was eliminated for privatizations occurring after June 30, 2020.

**2019 Changes**

Changes in Actuarial Assumptions:

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

Changes in Plan Provisions:

- The employer supplemental contribution was changed prospectively, decreasing \$31.0 million to \$21.0 million per year. The State's special funding contribution was changed prospectively, requiring \$16.0 million due per year through 2031.

**2018 Changes**

Changes in Actuarial Assumptions:

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

**2017 Changes**

Changes in Actuarial Assumptions:

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

**2016 Changes**

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.

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.

## **OTHER SUPPLEMENTARY INFORMATION**

**City of Milroy  
Combining Balance Sheet  
Nonmajor Governmental Funds  
December 31, 2022**

	Special Revenue		Total Nonmajor Governmental Funds
	Economic Development Authority	Fitness Center	
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 51,602	\$ 4,787	\$ 56,389
<i>Total Assets</i>	51,602	4,787	56,389
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Aggregated deferred outflows	--	--	--
<i>Total Assets and Deferred Outflows of Resources</i>	<b>\$ 51,602</b>	<b>\$ 4,787</b>	<b>\$ 56,389</b>
<b>LIABILITIES</b>			
Accounts Payable	\$ --	\$ 129	\$ 129
Deposits	850	--	850
Unearned Revenue	--	2,395	2,395
<i>Total Liabilities</i>	850	2,524	3,374
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Aggregated deferred inflows	--	--	--
<i>Total Liabilities and Deferred Inflows of Resources</i>	850	2,524	3,374
<b>FUND BALANCE</b>			
Committed	--	2,263	2,263
Assigned	50,752	--	50,752
Unassigned	--	--	--
<i>Total Fund Balance</i>	50,752	2,263	53,015
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balance</i>	<b>\$ 51,602</b>	<b>\$ 4,787</b>	<b>\$ 56,389</b>

**City of Milroy**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Nonmajor Governmental Funds**  
**For the Year Ended December 31, 2022**

	Special Revenue		Total Nonmajor Governmental Funds
	Economic Development Authority	Fitness Center	
<b>Revenues</b>			
Charges for Services	\$ 9,900	\$ 3,616	\$ 13,516
Other	--	110	110
<b><i>Total Revenues</i></b>	9,900	3,726	13,626
<b>Expenditures</b>			
Economic Development	2,577	--	2,577
Fitness Center	--	4,913	4,913
<b><i>Total Expenditures</i></b>	2,577	4,913	7,490
<b><i>Excess of Revenues Over (Under) Expenditures</i></b>	7,323	(1,187)	6,136
<b>Other Financing Sources (Uses)</b>			
Transfers from Other Funds	--	--	--
Transfers to Other Funds	--	--	--
<b><i>Net Other Financing Sources (Uses)</i></b>	--	--	--
<b><i>Net Change in Fund Balance</i></b>	7,323	(1,187)	6,136
<i>Fund Balance at Beginning of Period</i>	43,429	3,450	46,879
<b><i>Fund Balance at End of Period</i></b>	\$ 50,752	\$ 2,263	\$ 53,015

**CITY OF MILROY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED DECEMBER 31, 2022**

**Section I – Summary of Auditor’s Results**

**FINANCIAL STATEMENTS**

Type of auditor’s report issued	Unmodified
Internal control over financial reporting:	
Material weaknesses identified	Yes
Significant deficiencies not considered to be material weaknesses	None Reported
Noncompliance material to financial statements noted?	No

**FEDERAL AWARDS**

Internal control over major program:	
Material weaknesses identified	No
Significant deficiencies not considered to be material weaknesses	None Reported

Type of auditor’s report issued on compliance for major programs:	Unmodified
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Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516	No
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**Identification of Major Programs:**

Name of Federal Program	CFDA Number
Communities Facilities Loans and Grants	10.766

Dollar threshold used to distinguish between type A and type B programs:	\$ 750,000
--	------------

Auditee qualified as low-risk auditee?	No
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**CITY OF MILROY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED DECEMBER 31, 2022**

**FINDINGS – FINANCIAL STATEMENTS AUDIT**

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

**2022-001: Segregation of Duties**

**Condition:** Due to the limited number of accounting office personnel within the City, segregation of the accounting functions necessary to ensure adequate internal accounting controls is not always possible. The City does not segregate the duties of cash receipting and disbursing from one employee. The same employee also maintains the general ledger and prepares bank reconciliations.

**Effect:** This could effect the City’s ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements.

**Cause:** The City has limited staff in the accounting department. The same employee is performing multiple accounting functions.

**Criteria:** One basic objective of internal control is to provide for segregation of incompatible duties. In other words, responsibilities should be separated among employees so that a single employee is not able to authorize a transaction, record the transaction in accounts, and maintain responsibility for custody of the asset resulting from the transaction.

**Recommendation:** Since we acknowledge that it is not economically feasible for the City to hire additional staff, we recommend the Mayor and City Council continue to monitor financial activity, and review and approve invoices. As an added control we would also recommend the Mayor or designated City Council Member continue to monitor and approve bank reconciliations. This review and approval should be evidenced by a signature on the bank reconciliation.

**Corrective Action Plan (CAP):**

1. Explanation of Disagreement with the Audit Finding  
There is no disagreement with the audit finding.
2. Action Planned in Response to Finding  
The City will respond to this by Continuing to have the Mayor or a designated City Council Member review, approve and initial invoices, review the bank statements, monthly reconciliations and initial that review process on the reconciliation.
3. Official Responsible for Insuring CAP  
The Mayor and the City Council are responsible for ensuring corrective action of this deficiency.
4. Planned Completion Date for CAP  
Alternate control procedures have been and will continue to be performed by the Mayor and the City Council. This plan will be reviewed on a continuing basis to ensure compliance.
5. Plan to Monitor Completion of CAP  
The Mayor and the City Council will be monitoring this plan.



**CITY OF MILROY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED DECEMBER 31, 2022**

**2022-002: Audit Adjustments**

**Condition:** During our audit, we proposed numerous adjustments that resulted in significant changes to the City's financial statements. The adjustments resulted from the general ledger being partially maintained on the cash basis of accounting rather than the accrual basis.

**Effect:** A control deficiency 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 misstatements in the financial statements on a timely basis. One control deficiency that typically is considered significant is identification by the auditor of a material misstatement in the financial statements not initially identified by the entity's internal controls. This could affect the City's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements.

**Cause:** As is the case with many small entities, the City has relied on its independent external auditors to assist in the preparation of the journal entries necessary to convert the general ledger to the accrual basis of accounting. Accordingly, the City's ability to produce an accrual basis general ledger is based, at least in part, on reliance on its external auditors, who cannot by definition be considered part of the City's internal control. This condition was caused by the City's decision that it is more cost effective to have its auditors assist in preparing an accrual basis general ledger than to incur the time and expense or training required to maintain an accrual basis general ledger.

**Criteria:** The City's accounting staff should prepare journal entries during the year, or at a minimum, at year end to convert the cash basis general ledger to a modified accrual basis general ledger. The external auditor's staff cannot be considered part of the City's internal control and should not be relied upon to propose a significant number of material audit adjustments.

**Recommendation:** If the City still intends to have the external auditors assist in the preparation of accrual basis journal entries, then at a minimum, we recommend they continue to provide adequate training so the City Clerk-Treasurer can sufficiently review, understand and approve the journal entries.

**Corrective Action Plan (CAP):**

1. Explanation of Disagreement with the Audit Finding  
There is no disagreement with the audit finding.
2. Action Planned in Response to Finding  
The City will continue to rely on the external auditors to recommend adjustments. The City Clerk-Treasurer will review and approve any proposed audit adjustments.
3. Official Responsible for Insuring CAP  
The Mayor and the City Council are responsible for ensuring corrective action of this deficiency.
4. Planned Completion Date for CAP  
This plan has been and will continue to be implemented.
5. Plan to Monitor Completion of CAP  
The Mayor and the City Council will be monitoring this plan.

**FINDINGS RELATIVE TO FEDERAL AWARD PROGRAMS**

**None**

**CITY OF MILROY  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
YEAR ENDED DECEMBER 31, 2022**

**FINDINGS RELATIVE TO FINANCIAL STATEMENT AUDIT**

**INTERNAL CONTROL**

**Finding 2021-001: Internal Accounting Controls – Segregation of Duties**

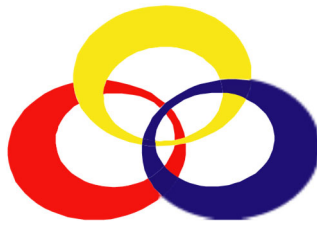
Condition: Due to the limited number of accounting office personnel within the City, segregation of the accounting functions necessary to ensure adequate internal control is not always possible.

Recommendation: Since we acknowledge that it is not economically feasible for the City to hire additional staff, we recommend the Mayor and City Council continue to monitor financial activity. We also recommend the Mayor or designated City Council Member continue to review and approve all bills, as well as approve bank reconciliations, which should be documented by initialing the bank reconciliation.

Current Status: This finding continues to exist and has been restated as Finding 2022-001.

**FINDINGS RELATIVE TO FEDERAL AWARD PROGRAMS**

**None**



**Kinner & Company Ltd**  
Certified Public Accountants

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

Honorable Mayor and Members of the Council  
City of Milroy  
Milroy, Minnesota 56263

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the 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 Milroy, 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 Milroy, Minnesota's basic financial statements and have issued our report thereon dated February 27, 2023.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the City of Milroy, Minnesota's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Milroy, Minnesota's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Milroy, Minnesota's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs, as items 2022-001 and 2022-002, to be material weaknesses.

212 3<sup>rd</sup> Street, Suite 1, Tracy, MN 56175  
507-629-3662 or fax 507-629-3446  
Visit our [website](http://www.kinner.co) at [www.kinner.co](http://www.kinner.co)

## **Compliance and Other Matters**

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

## **Minnesota Legal Compliance**

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

## **City of Milroy, Minnesota's Response to Findings**

City of Milroy, Minnesota's response to the findings identified in our audit is described in the accompanying Schedule of Prior and Current Findings and Responses. City of Milroy, Minnesota response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

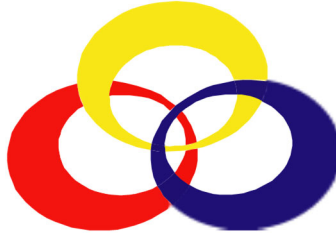
## **Purpose of Report**

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

*Kinner & Company Ltd*

Kinner & Company Ltd  
Certified Public Accountants

February 27, 2023



**Kinner & Company Ltd**  
**Certified Public Accountants**

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Honorable Mayor and Members of the Council  
City of Milroy  
Milroy, Minnesota 56263

**Report on Compliance for Each Major Federal Program**

**Opinion on Each Major Federal Program**

We have audited City of Milroy, Minnesota's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on City of Milroy, Minnesota's major federal program for the year ended December 31, 2022. City of Milroy, Minnesota's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, City of Milroy, Minnesota complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2022.

**Basis for Opinion on Each Major Federal Program**

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the audit requirements of Title 2 *U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of City of Milroy, Minnesota and to meet our other ethical responsibilities, in accordance with 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 opinion on compliance for each major federal program. Our audit does not provide a legal determination of City of Milroy, Minnesota's compliance with the compliance requirements referred to above.

212 3<sup>rd</sup> Street, Suite 1, Tracy, MN 56175  
507-629-3662 or fax 507-629-3446  
Visit our website at [www.kinner.co](http://www.kinner.co)

## **Responsibilities of Management for Compliance**

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal controls over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to City of Milroy, Minnesota's federal programs.

## **Auditor's Responsibility for the Audit of Compliance**

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on City of Milroy, Minnesota's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the *Uniform Guidance* will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about City of Milroy, Minnesota's compliance with the requirements of each major federal program as a whole.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 City of Milroy, Minnesota's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of City of Milroy, Minnesota's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the *Uniform Guidance*, but not for the purpose of expressing an opinion on the effectiveness of City of Milroy, Minnesota's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

## **Other Matters**

*Government Auditing Standards* requires the auditor to perform limited procedures on City of Milroy, Minnesota's response to the noncompliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. City of Milroy, Minnesota's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

## Report on Internal Control over Compliance

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Kinner & Company Ltd*

Kinner & Company Ltd  
Certified Public Accountants  
Tracy, MN

February 27, 2023

**CITY OF MILROY  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 FOR THE YEAR ENDED DECEMBER 31, 2022**

<b><u>FEDERAL GRANTS/PASS-THROUGH GRANTOR/PROGRAM OR CLUSTER TITLE</u></b>	<b><u>Assistance Listing</u></b>	<b><u>Federal Expenditures</u></b>
<b>U.S. Department of Agriculture</b>		
Community Facilities Loans	10.766	\$ 1,967,815
<b>Total U.S. Department of Agriculture</b>		
 <b>TOTAL FEDERAL EXPENDITURES</b>		 <b><u><u>\$ 1,967,815</u></u></b>

See notes to schedule of expenditures of federal awards.



**CITY OF MILROY**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED DECEMBER 31, 2022**

**NOTE 1 - BASIS OF PRESENTATION**

This accompanying Schedule of Expenditures of Federal Awards includes the federal award activity of City of Milroy, Minnesota under programs of the federal government for the year ended June 30, 2022. The information in this schedule is presented in accordance with the requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Because the Schedule presents only a selected portion of the operations City of Milroy, Minnesota, it is not intended to, and does not present the financial position, changes in net assets, or cash flows of City of Milroy, Minnesota.

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, where in certain types of expenditures are not allowable or are limited as to reimbursement.

**NOTE 3 – DE MINIMIS INDIRECT COST RATE**

City of Milroy, Minnesota has not elected to use the 10% de minimis cost rate, as allowed under Uniform Guidance

**NOTE 4 – LOAN PROGRAMS AND LOAN GUARANTEE PROGRAMS**

The City of Milroy, Minnesota was granted a Community Facilities Loans and Grants loan of \$2,313,000 in 2022. The outstanding balance of the loan as of December 31, 2022 is \$2,313,000.