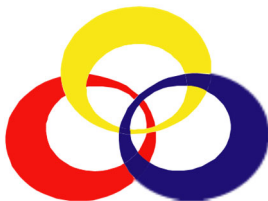


FINANCIAL AUDIT REPORT
FOR THE YEAR ENDED
DECEMBER 31, 2023



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, 2023**

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

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, 2023, 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, 2023, 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 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 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 March 25, 2024, 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
March 25, 2024

**CITY OF MILROY
MANAGEMENT’S DISCUSSION AND ANALYSIS
DECEMBER 31, 2023**

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, 2023.

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 \$1,111,929 (net position). Of this amount, \$812,261 (unrestricted net position) may be used to meet the City’s ongoing obligations to citizens and creditors.
- The City’s total net position decreased by \$106,880, compared to an increase of \$60,510 in the previous year. Of this decrease, business-type activities (enterprise funds) had an increase of \$19,144 and governmental activities had a decrease of \$126,024. The major factor in the change in governmental activities was due to additional depreciation expense related to the street project and ditch assessments to the county. 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 \$659,745, a decrease of \$202,358 in comparison with the prior year. Approximately 22 percent of this total amount, \$142,466 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, 2023**

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

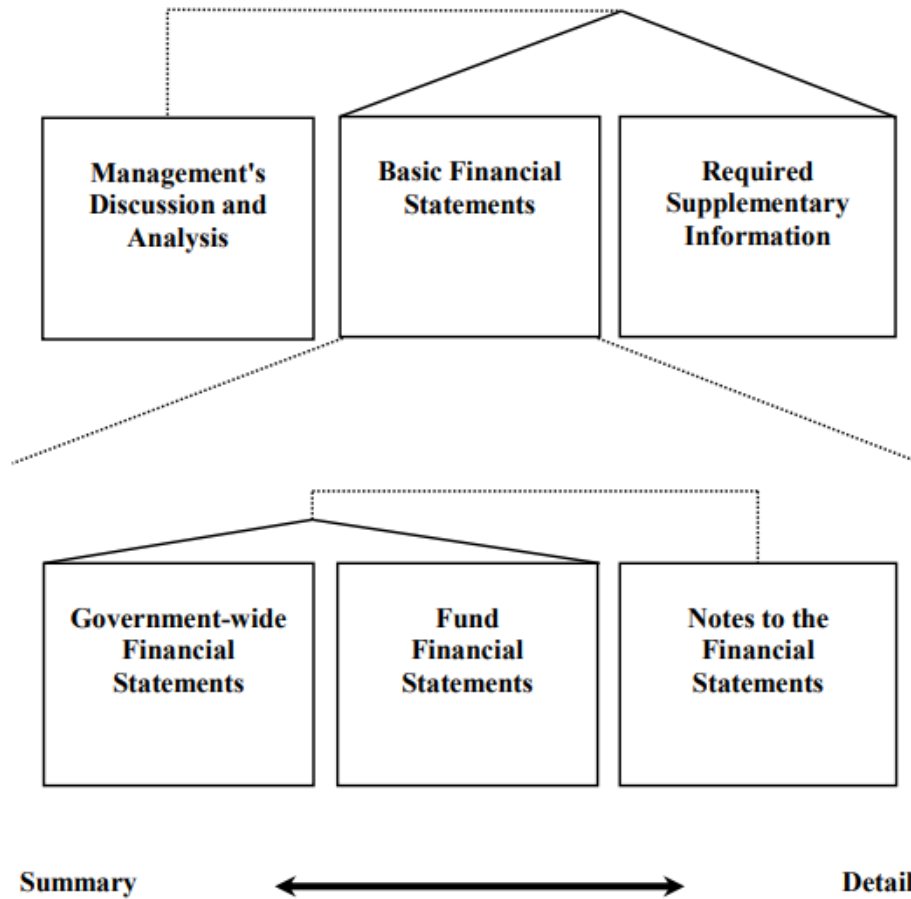


Figure 2 summarizes the major features of the City’s financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis explains the structure and contents of each of the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

**CITY OF MILROY
MANAGEMENT’S DISCUSSION AND ANALYSIS
DECEMBER 31, 2023**

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

	Fund Financial Statements		
	Government-wide Statements	Governmental Funds	Proprietary Funds
Scope	Entire City Government	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, 2023

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, 2023**

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 \$1,111,929 at the close of the most recent fiscal year.

A portion of the City's net position (26 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, 2023**

City of Milroy's Summary of Net Position

	Governmental Activities		Business-Type Activities		2023
	2023	2022	2023	2022	Total
Current and other assets	\$ 673,328	\$1,087,641	\$ 314,012	\$ 304,636	\$ 987,340
Capital assets	2,220,284	2,314,788	204,089	228,269	2,424,373
Total assets	<u>2,893,612</u>	<u>3,402,429</u>	<u>518,101</u>	<u>532,905</u>	<u>3,411,713</u>
Deferred outflows	16,089	20,927	8,288	10,780	24,377
Long-term liabilities outstanding	2,027,604	2,392,989	94,838	132,658	2,122,442
Other liabilities	122,621	147,489	34,593	34,565	157,214
Total liabilities	<u>2,150,225</u>	<u>2,540,478</u>	<u>129,431</u>	<u>167,223</u>	<u>2,279,656</u>
Deferred inflows	29,373	26,751	15,132	13,780	44,505
Net position					
Net investment in capital assets	179,376	308,969	109,089	102,268	288,465
Restricted	11,203	345,278	-	-	11,203
Unrestricted	<u>539,524</u>	<u>201,880</u>	<u>272,737</u>	<u>260,414</u>	<u>812,261</u>
	<u>\$ 730,103</u>	<u>\$ 856,127</u>	<u>\$ 381,826</u>	<u>\$ 362,682</u>	<u>\$1,111,929</u>

Restricted net position of \$11,203 (1 percent) relates to Public Safety Aid funds that the City has not spent as of the end of the fiscal year.

The remaining balance of unrestricted net position (73 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 \$19,144 in net position reported in connection with the City's business-type activities. This increase was a result of the following funds: Sewer increase of \$2,448, Water increase of \$12,849 and Garbage increase of \$3,847.

CITY OF MILROY
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2023

Governmental activities. Governmental activities decreased the City's net position by \$126,024. Key elements of this decrease are described above and summarized as follows:

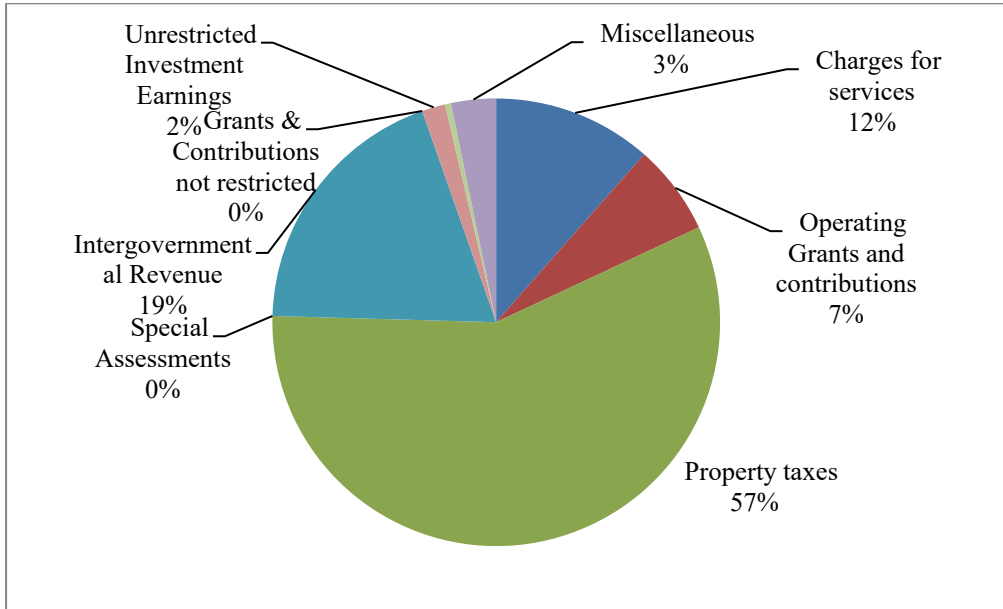
City of Milroy's Changes in Net Position

	Governmental Activities		Business-type Activities		2023
	2023	2022	2023	2022	Total
Revenues:					
Charges for services	\$ 39,424	\$ 32,207	\$ 150,009	\$ 150,717	\$ 189,433
Operating Grants and contributions	22,417	23,053	-	-	22,417
Capital grants and contributions	17,129	-	-	-	17,129
General Revenues					
Property taxes	196,922	196,506	-	-	196,922
Special Assessments	-	72,724	-	716	-
Intergovernmental Revenue	65,819	64,981	-	148	65,819
Grants & Contributions not restricted to specific programs	-	-	-	-	-
Unrestricted Investment Earnings	5,785	1,177	-	-	5,785
Gain on Sales of Assets	1,450	-	-	-	1,450
Miscellaneous	11,139	29,490	-	-	11,139
Total Revenues	360,085	420,138	150,009	151,581	510,094
Expenses:					
General Administrative	210,864	168,834	-	-	210,864
Public Safety	52,690	49,683	-	-	52,690
Streets & Highways	165,932	99,313	-	-	165,932
Cultural & Recreation	5,892	6,105	-	-	5,892
Economic Development	3,675	2,577	-	-	3,675
Fitness Center	4,388	4,913	-	-	4,388
Depreciation - Unallocated	7,580	9,890	-	-	7,580
Interest Expense and Fiscal Fees	35,088	38,004	-	-	35,088
Water	-	-	80,200	82,983	80,200
Sewer	-	-	36,003	34,180	36,003
Garbage	-	-	14,662	14,727	14,662
Total expenses	486,109	379,319	130,865	131,890	616,974
Transfers	-	-	-	-	-
Increase (Decrease) in net position	(126,024)	40,819	19,144	19,691	(106,880)
Net Position, January 1	856,127	815,308	362,682	342,991	1,218,809
Net Position, December 31	\$ 730,103	\$ 856,127	\$ 381,826	\$ 362,682	\$ 1,111,929

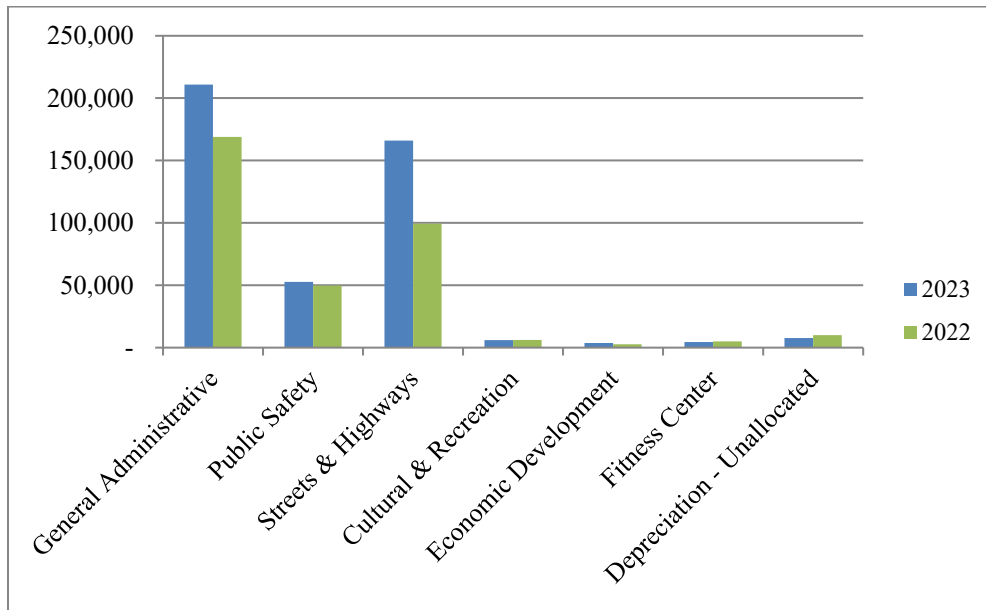
**CITY OF MILROY
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2023**

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

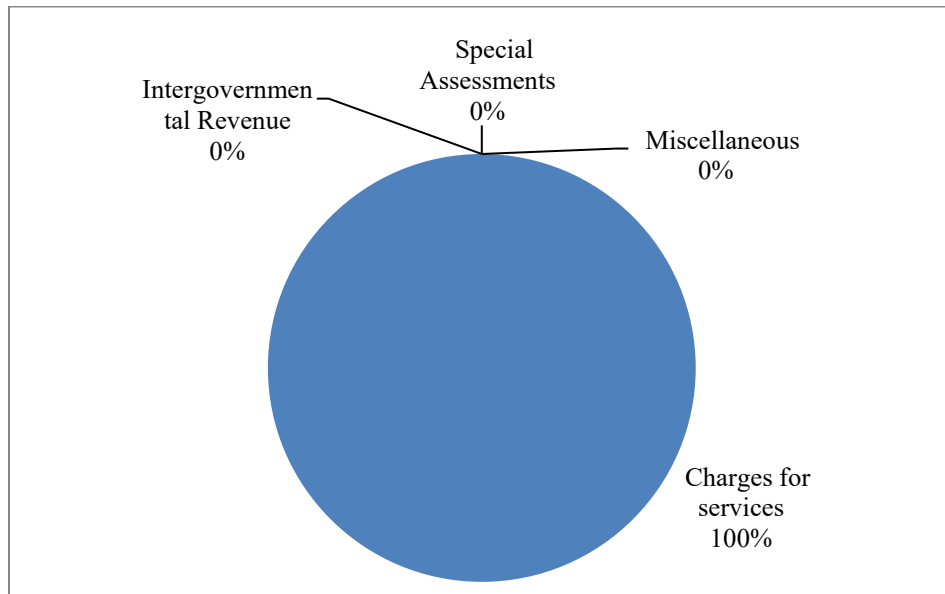


**CITY OF MILROY
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2023**

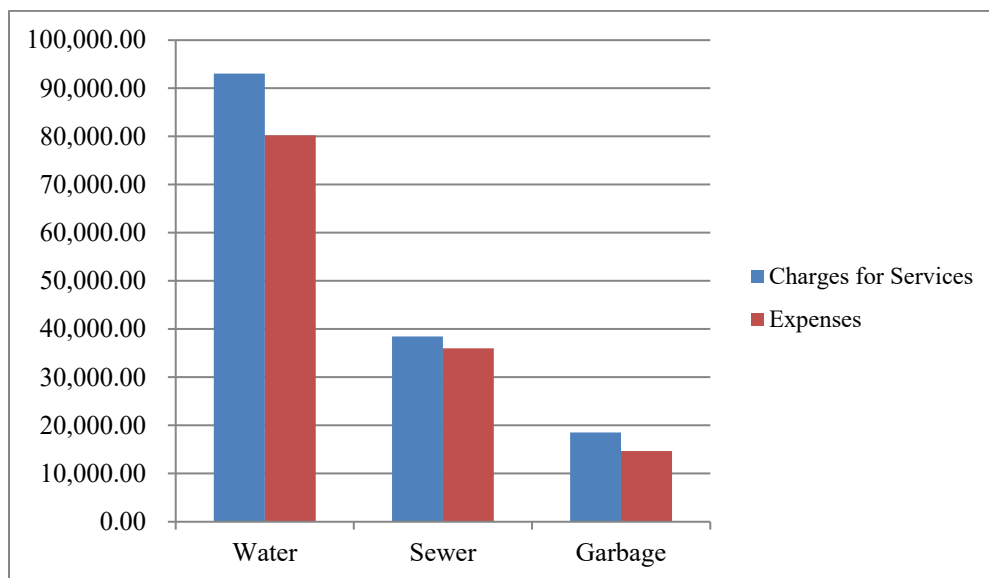
Business-type activities. Business-type activities increased the City's net position by \$19,144. Key elements of this increase are as follows:

- Overall revenue decreased by \$1,572 in the business-type funds while operating expenses decreased by \$1,025.

Revenues by Source- Business-type Activities



Charges for Services and Expenses – Business-type Activities



**CITY OF MILROY
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2023**

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 \$334,882. 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 50 percent of fund expenditures, while total fund balance represents over 100 percent of that same amount.

The fund balance of the City's General fund increased by \$10,490 during the current fiscal year. The keys factor in this increase relate donations for the park shelter and public safety aid.

The Fire fund has a total fund balance of \$191,051. There was an increase in fund balance during the current year of \$13,534.

The 2022 Tax Abatement fund has a total fund balance of \$71,431. There was a decrease in fund balance during the current year of \$235,750 due to paying off the temporary financing bond with the USDA bond.

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 \$272,737. The total increase in net position for the funds was \$19,144. 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 \$33,118 largely due to public safety aid and park shelter donations. Actual expenditures exceeded the budget by \$22,673 largely due to ditch assessments and park shelter improvements. Other financing sources/uses resulted in a negative \$560 variance to budget. The overall net result was an increase to the General fund balance of \$10,490 in 2023.

**CITY OF MILROY
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2023**

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, 2023 amounts to \$2,424,374 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment. The total decrease in the City's investment in capital assets for the current fiscal year was 5%.

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

The purchase of a pumper truck, thermal imaging camera, speed signs and park shelter improvements.

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		2023
	2023	2022	2023	2022	Total
Land	\$ 27,987	\$ 27,987	\$ -	\$ -	\$ 27,987
Buildings & Improvements	2,363,081	2,365,061	637,202	637,202	3,000,283
Equipment	833,121	864,015	-	-	833,121
Totals	<u>3,224,189</u>	<u>3,257,063</u>	<u>637,202</u>	<u>637,202</u>	<u>3,861,391</u>
Less Accumulated Depreciation	<u>(1,003,905)</u>	<u>(942,275)</u>	<u>(433,113)</u>	<u>(408,934)</u>	<u>(1,437,018)</u>
Net Capital Assets	<u>\$2,220,284</u>	<u>\$2,314,788</u>	<u>\$ 204,089</u>	<u>\$ 228,268</u>	<u>\$2,424,374</u>

Long-term debt. At the end of the current fiscal year, the City had total debt outstanding of \$2,135,908. 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		2023
	2023	2022	2023	2022	Total
Tax Abatement Bond	\$ 2,040,908	\$2,313,000	\$ -	\$ -	\$ 2,040,908
GO Utility Revenue Bond	-	-	95,000	126,000	95,000
Totals	<u>\$ 2,040,908</u>	<u>\$2,313,000</u>	<u>\$ 95,000</u>	<u>\$ 126,000</u>	<u>\$2,135,908</u>

The City's total debt decreased 12 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, 2023**

Economic Factors and Next Year's Budgets and Rates

The City's elected and appointed officials considered many factors when setting the fiscal year 2024 budget, tax rates and fees that will be charged for the business-type activities. The Council expects operations to remain consistent with 2023.

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, 2023

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
<i>Current Assets</i>			
Cash and Cash Equivalents	\$ 652,468	\$ 302,939	\$ 955,407
Accrued Interest	3,195	--	3,195
Delinquent Taxes Receivable	8,031	--	8,031
Accounts Receivable	--	9,175	9,175
Special Assessments Receivable	--	1,898	1,898
Prepaid and Other Assets	9,634	--	9,634
Total Current Assets	673,328	314,012	987,340
<i>Noncurrent Assets</i>			
Non-Depreciable	27,987	--	27,987
Depreciable, Net	2,192,297	204,089	2,396,386
Total Assets	2,893,612	518,101	3,411,713
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Pension Resources	16,089	8,288	24,377
Total Deferred Outflows of Resources	16,089	8,288	24,377
LIABILITIES			
<i>Current Liabilities</i>			
Accounts Payable	3,574	1,402	4,976
Accrued Interest Payable	33,835	1,191	35,026
Deposits	850	--	850
Unearned Revenue	2,500	--	2,500
Bonds Payable-due within one year	81,862	32,000	113,862
Total Current Liabilities	122,621	34,593	157,214
<i>Noncurrent Liabilities</i>			
Accrued Leave	16,890	5,220	22,110
Bonds Payable-due beyond one year	1,959,046	63,000	2,022,046
Net Pension Liability	51,668	26,618	78,286
Total Liabilities	2,150,225	129,431	2,279,656
DEFERRED INFLOWS OF RESOURCES			
Deferred Pension Resources	29,373	15,132	44,505
Total Deferred Inflows of Resources	29,373	15,132	44,505
NET POSITION			
Net Investment in Capital Assets	179,376	109,089	288,465
<i>Restricted</i>	11,203	--	11,203
<i>Unrestricted</i>	539,524	272,737	812,261
Total Net Position	\$ 730,103	\$ 381,826	\$ 1,111,929

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, 2023

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
Primary Government							
Governmental Activities:							
General Government and Administration	\$ 210,864	\$ 1,890	\$ --	\$ --	\$ (208,974)	\$ --	\$ (208,974)
Public Safety	52,690	20,103	22,417	7,065	(3,105)	--	(3,105)
Streets and Highways	165,932	--	--	--	(165,932)	--	(165,932)
Culture and Recreation	5,892	--	--	10,064	4,172	--	4,172
Economic Development	3,675	9,900	--	--	6,225	--	6,225
Fitness Center	4,388	7,531	--	--	3,143	--	3,143
Depreciation-Unallocated	7,580	--	--	--	(7,580)	--	(7,580)
Debt - Interest and Fiscal Fees	35,088	--	--	--	(35,088)	--	(35,088)
Total Governmental Activities	486,109	39,424	22,417	17,129	(407,139)	--	(407,139)
Business-type Activities:							
Garbage	14,662	18,509	--	--	--	3,847	3,847
Sewer	36,003	38,451	--	--	--	2,448	2,448
Water	80,200	93,049	--	--	--	12,849	12,849
Total Business-type Activities	130,865	150,009	--	--	--	19,144	19,144
Total Primary Government	\$ 616,974	\$ 189,433	\$ 22,417	\$ 17,129	\$ (407,139)	\$ 19,144	\$ (387,995)

General Purpose Revenues and Transfers:

Revenues

Taxes	196,922	--	196,922
Local Government Aid	65,819	--	65,819
Refunds and Reimbursements	5,608	--	5,608
Interest Revenue	5,785	--	5,785
Gain (Loss) on Sale of Assets	1,450	--	1,450
Other	5,531	--	5,531

Transfers

Total General Revenues and Transfers	281,115	--	281,115
Change in Net Position	(126,024)	19,144	(106,880)
<i>Net Position at Beginning of Period</i>	856,127	362,682	1,218,809
Net Position at End of Period	\$ 730,103	\$ 381,826	\$ 1,111,929

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

**City of Milroy
Balance Sheet
Governmental Funds
December 31, 2023**

	<u>General</u>	<u>Special Revenue Fire</u>	<u>Debt Service 2022 Tax Abatement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash and Cash Equivalents	\$ 322,464	\$ 193,084	\$ 71,062	\$ 65,858	\$ 652,468
Accrued Interest	2,618	577	--	--	3,195
Delinquent Taxes Receivable	6,368	--	1,663	--	8,031
Prepaid and Other Assets	9,634	--	--	--	9,634
<i>Total Assets</i>	<u>341,084</u>	<u>193,661</u>	<u>72,725</u>	<u>65,858</u>	<u>673,328</u>
DEFERRED OUTFLOWS OF RESOURCES					
Aggregated deferred outflows	--	--	--	--	--
<i>Total Assets and Deferred Outflows of Resources</i>	<u>\$ 341,084</u>	<u>\$ 193,661</u>	<u>\$ 72,725</u>	<u>\$ 65,858</u>	<u>\$ 673,328</u>
LIABILITIES					
Accounts Payable	\$ 837	\$ 2,610	\$ --	\$ 127	\$ 3,574
Deposits	--	--	--	850	850
Unearned Revenue	--	--	--	2,500	2,500
<i>Total Liabilities</i>	<u>837</u>	<u>2,610</u>	<u>--</u>	<u>3,477</u>	<u>6,924</u>
DEFERRED INFLOWS OF RESOURCES					
Unavailable Revenue - Taxes	5,365	--	1,294	--	6,659
<i>Total Liabilities and Deferred Inflows of Resources</i>	<u>6,202</u>	<u>2,610</u>	<u>1,294</u>	<u>3,477</u>	<u>13,583</u>
FUND BALANCE					
Nonspendable	9,634	--	--	--	9,634
Restricted	11,203	--	71,431	--	82,634
Committed	171,579	153,483	--	5,404	330,466
Assigned	--	37,568	--	56,977	94,545
Unassigned	142,466	--	--	--	142,466
<i>Total Fund Balance</i>	<u>334,882</u>	<u>191,051</u>	<u>71,431</u>	<u>62,381</u>	<u>659,745</u>
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balance</i>	<u>\$ 341,084</u>	<u>\$ 193,661</u>	<u>\$ 72,725</u>	<u>\$ 65,858</u>	<u>\$ 673,328</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, 2023

Total Fund Balance - Governmental Funds	\$	659,745
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		(16,890)
Accrued interest payable is accrued on Statement of Net Position and expensed on the Statement of Activities. Interest is expensed on a cash basis on the Statement of Revenues, Expenditures, and Changes in Fund Balance.		(33,835)
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.		2,220,284
Receivables to be collected, but not available soon enough to pay for the current period's expenditures, and therefore are reported as deferred inflows.		6,658
Long- term debt reflected on Statement of Net Assets not in governmental funds balance sheet		(2,040,908)
Net pension liability is not due and payable in the current period from current financial resources, and therefore are not reported in the funds.		(51,668)
Pension related deferred inflows are not due and payable in the current period from current financial resources, and therefore are not reported in funds.		(29,373)
Pension related deferred outflows are not available to pay for current period expenditures and therefore are deferred in the funds.		16,089
Total Net Position-Governmental Funds	\$	<u>730,103</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
Governmental Funds
For the Year Ended December 31, 2023

	<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>	
Revenues					
Taxes	\$ 180,382	\$ --	\$ 71,430	\$ --	\$ 251,812
Local Government Aid	65,819	--	--	--	65,819
Other State Aid	22,417	--	--	--	22,417
Licenses, Permits, Fines, and Fees	1,890	--	--	--	1,890
Charges for Services	--	20,103	--	17,431	37,534
Tax Abatement	16,500	--	--	--	16,500
Refunds and Reimbursements	--	12,673	--	--	12,673
Donations	10,064	100	--	--	10,164
Insurance Dividends	4,722	--	--	--	4,722
Other	709	--	--	--	709
Interest Revenue	4,296	1,489	--	--	5,785
Gain (Loss) on Sale of Assets	--	4,000	--	--	4,000
Total Revenues	<u>306,799</u>	<u>38,365</u>	<u>71,430</u>	<u>17,431</u>	<u>434,025</u>
Expenditures					
General Government and Administration	214,355	--	--	--	214,355
Public Safety	11,714	20,326	--	--	32,040
Streets and Highways	43,263	--	--	--	43,263
Culture and Recreation	1,281	--	--	--	1,281
Economic Development	--	--	--	3,675	3,675
Fitness Center	--	--	--	4,388	4,388
Capital Outlay	15,636	14,565	--	--	30,201
Debt - Interest	--	--	21,588	--	21,588
Debt - Principal	--	--	2,313,000	--	2,313,000
Debt - Bond Fees	--	--	13,500	--	13,500
Total Expenditures	<u>286,249</u>	<u>34,891</u>	<u>2,348,088</u>	<u>8,063</u>	<u>2,677,291</u>
Excess of Revenues Over (Under) Expenditures	<u>20,550</u>	<u>3,474</u>	<u>(2,276,658)</u>	<u>9,368</u>	<u>(2,243,266)</u>
Other Financing Sources (Uses)					
Proceeds from Loans	--	--	2,040,908	--	2,040,908
Transfers from Other Funds	--	10,060	--	--	10,060
Transfers to Other Funds	(10,060)	--	--	--	(10,060)
Net Other Financing Sources (Uses)	<u>(10,060)</u>	<u>10,060</u>	<u>2,040,908</u>	<u>--</u>	<u>2,040,908</u>
Net Change in Fund Balance	10,490	13,534	(235,750)	9,368	(202,358)
<i>Fund Balance at Beginning of Period</i>	324,392	177,517	307,181	53,013	862,103
Fund Balance at End of Period	\$ 334,882	\$ 191,051	\$ 71,431	\$ 62,381	\$ 659,745

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, 2023

Total Net Change in Fund Balances - Governmental Funds	\$ (202,358)
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.	(71,390)
Accrued interest expense included in Statement of Activities, expensed as paid in governmental fund statements	(33,835)
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.	(122,155)
Principal payments on long-term expensed in governmental fund statements, treated as reductions of outstanding debt in Entity wide statements	2,313,000
Capital assets expensed as capital outlay in governmental fund statements, capitalized as capital assets in Statement of Net Position.	30,201
Proceeds of long-term debt treated as revenue in the fund level statements, treated as increases to long-term debt in entity wide statements	(2,040,908)
The net effect of various transactions involving capital assets (i.e. Sales, trade-ins, and contributions) is to increase net position.	(2,550)
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.	(4,855)
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.	8,824
Changes in Net Position-Governmental Funds	<u>\$ (126,024)</u>

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

City of Milroy
Statement of Net Position
Proprietary Funds
December 31, 2023

	Business-type Activities - Enterprise Funds			
	Sewer	Water	Nonmajor - Garbage	Total Enterprise Funds
ASSETS				
<i>Current Assets</i>				
Cash and Cash Equivalents	\$ 137,279	\$ 121,399	\$ 44,261	\$ 302,939
Accounts Receivable	3,318	4,373	1,484	9,175
Special Assessments Receivable	443	997	458	1,898
Total Current Assets	141,040	126,769	46,203	314,012
<i>Noncurrent Assets</i>				
Depreciable, Net	29,355	174,734	--	204,089
Total Assets	170,395	301,503	46,203	518,101
DEFERRED OUTFLOWS OF RESOURCES				
Deferred Pension Resources	4,144	4,144	--	8,288
Total Deferred Outflows of Resources	4,144	4,144	--	8,288
LIABILITIES				
<i>Current Liabilities</i>				
Accounts Payable	--	169	1,233	1,402
Accrued Interest Payable	--	1,191	--	1,191
Bonds Payable-due within one year	--	32,000	--	32,000
Total Current Liabilities	--	33,360	1,233	34,593
<i>Noncurrent Liabilities</i>				
Accrued Leave	2,610	2,610	--	5,220
Bonds Payable-due beyond one year	--	63,000	--	63,000
Net Pension Liability	13,309	13,309	--	26,618
Total Liabilities	15,919	112,279	1,233	129,431
DEFERRED INFLOWS OF RESOURCES				
Deferred Pension Resources	7,566	7,566	--	15,132
Total Deferred Inflows of Resources	7,566	7,566	--	15,132
NET POSITION				
Net Investment in Capital Assets	29,355	79,734	--	109,089
<i>Unrestricted</i>	121,699	106,068	44,970	272,737
Total Net Position	\$ 151,054	\$ 185,802	\$ 44,970	\$ 381,826

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, 2023

	Business-type Activities - Enterprise Funds			Total Enterprise Funds
	Sewer	Water	Nonmajor - Garbage	
Operating Revenues				
Charges for Services	\$ 10,005	\$ 45,948	\$ 18,509	\$ 74,462
Improvement Fees	28,446	47,101	--	75,547
Total Operating Revenues	38,451	93,049	18,509	150,009
Operating Expenses				
Sewer Operations	2,937	--	--	2,937
Water Operations	--	20,505	--	20,505
Garbage Operations	--	--	14,662	14,662
Depreciation	6,255	17,923	--	24,178
Salaries and Wages	19,695	19,695	--	39,390
Payroll Taxes and Benefits	2,790	2,790	--	5,580
Dues/Conferences/Training	2,099	1,051	--	3,150
Office Supplies and Expenses	322	366	--	688
Telephone	160	161	--	321
Utilities	3,621	1,403	--	5,024
Repairs and Maintenance	35	14,369	--	14,404
Miscellaneous	37	37	--	74
Shop Supplies	325	934	--	1,259
Total Operating Expenses	38,276	79,234	14,662	132,172
Operating Income (Loss)	175	13,815	3,847	17,837
Non-Operating Revenues (Expenses)				
Interest Expense	--	(2,844)	--	(2,844)
Bond Issuance Costs	--	(395)	--	(395)
Pension (Expense) Recovered	2,273	2,273	--	4,546
Net Non-Operating Revenues (Expenses)	2,273	(966)	--	1,307
Income Before Contributions and Transfers	2,448	12,849	3,847	19,144
Transfers from Other Funds	--	--	--	--
Transfers to Other Funds	--	--	--	--
Change In Net Position	2,448	12,849	3,847	19,144
<i>Net Position at Beginning of Period</i>	148,606	172,953	41,123	362,682
Net Position at End of Period	\$ 151,054	\$ 185,802	\$ 44,970	\$ 381,826

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, 2023

	Business-type Activities - Enterprise Funds			
	Sewer	Major Water	Nonmajor Garbage	Total Enterprise Funds
Cash Flows from Operating Activities:				
Cash Received from Customers	\$ 38,341	\$ 94,229	\$ 18,562	\$ 151,132
Cash Received from Other Sources	-	-	-	-
Cash Paid to Employees	(18,411)	(18,411)		(36,822)
Cash Paid for Goods and Services	(12,326)	(41,727)	(15,107)	(69,160)
Net Cash Provided (Used) by Operating Activities	7,604	34,091	3,455	45,150
Cash Flows from Capital and Related Financing Activities:				
Bond Costs	-	(395)	-	(395)
Principal Paid on Bond	-	(31,000)	-	(31,000)
Interest Paid on Bond	-	(3,260)	-	(3,260)
Net Cash Provided (Used) by Capital and Related Financing Activities	-	(34,655)	-	(34,655)
Net Increase (Decrease) in Cash and Cash Equivalents	7,604	(564)	3,455	10,495
Cash and Cash Equivalents - Beginning of Year	129,675	121,963	40,806	292,444
Cash and Cash Equivalents - End of Year	\$ 137,279	\$ 121,399	\$ 44,261	\$ 302,939

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

Cash Flows From Operating Activities:				
Operating Income (Loss)	\$ 175	\$ 13,815	\$ 3,847	\$ 17,837
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities				
Depreciation	6,255	17,923	-	24,178
Changes in Assets and Liabilities:				
Accounts Receivable	(110)	1,180	53	1,123
Accounts Payable	-	(111)	(445)	(556)
Accrued Leave	1,284	1,284	-	2,568
Net Cash Provided (Used) by Operating Activities	\$ 7,604	\$ 34,091	\$ 3,455	\$ 45,150

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, 2023

	<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>
Revenues				
Property Taxes	\$ 180,000	\$ 180,000	\$ 180,382	\$ 382
Licenses and Permits	1,200	1,200	1,890	690
Local Government Aid	64,981	64,981	65,819	838
State Grants and Aids	--	--	11,203	11,203
Fire Aid	8,000	8,000	11,214	3,214
Tax Abatement	16,500	16,500	16,500	--
Donations	--	--	10,064	10,064
Interest Revenue	500	500	4,296	3,796
Insurance Dividends	2,000	2,000	4,722	2,722
Miscellaneous	500	500	709	209
Total Revenues	<u>273,681</u>	<u>273,681</u>	<u>306,799</u>	<u>33,118</u>
Other Financing Sources				
Total Revenues and Other Financing Sources	<u>273,681</u>	<u>273,681</u>	<u>306,799</u>	<u>33,118</u>
Expenditures				
General Government:				
Mayor and Council Salaries	5,000	5,000	4,800	200
Clerk-Treasurer Salaries	51,000	51,000	56,060	(5,060)
Clerk-Treasurer Payroll Taxes and Benefits	11,272	11,272	12,077	(805)
Employee Health Insurance	30,000	30,000	31,056	(1,056)
Assessor Salaries	2,240	2,240	2,472	(232)
Tax Abatement	16,500	16,500	16,500	--
Travel	1,300	1,300	1,476	(176)
Bonds and Insurance	16,000	16,000	20,078	(4,078)
Professional Fees	15,500	15,500	46,272	(30,772)
Property Taxes/Ditch Lien	1,050	1,050	450	600
Dues/Conferences/Training	3,900	3,900	4,686	(786)
Office Supplies	2,800	2,800	5,217	(2,417)
Telephone	4,000	4,000	3,711	289
Utilities	12,000	12,000	7,774	4,226
Building Repairs and Maintenance	1,100	1,100	39	1,061
Miscellaneous	1,000	1,000	1,687	(687)
Capital Outlay	500	500	--	500

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 - Continued
For the Year Ended December 31, 2023

	<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>
Public Safety:				
Ambulance Dues	1,500	1,500	500	1,000
State Relief Association Aid	8,000	8,000	11,214	(3,214)
Public Works:				
Salaries	18,000	18,000	18,416	(416)
Payroll Taxes	2,770	2,770	2,790	(20)
Shop Supplies	1,800	1,800	2,928	(1,128)
Shop Utilities	7,660	7,660	8,849	(1,189)
Repairs and Maintenance	2,600	2,600	1,256	1,344
Sealcoating & Crack filling	10,000	10,000	--	10,000
Vehicle Operating Expenditures	6,100	6,100	6,472	(372)
Miscellaneous	5,584	5,584	2,552	3,032
Capital Outlay	21,000	21,000	5,616	15,384
Culture and Recreation:				
Salaries	--	--	512	(512)
Repairs and Maintenance	100	100	126	(26)
Utilities	500	500	472	28
Supplies/Miscellaneous	1,800	1,800	171	1,629
Capital Outlay	1,000	1,000	10,020	(9,020)
Total Expenditures	<u>263,576</u>	<u>263,576</u>	<u>286,249</u>	<u>(22,673)</u>
Other Financing Uses				
Transfers to Other Funds	9,500	9,500	10,060	(560)
Total Expenditures and Other Financing Uses	<u>273,076</u>	<u>273,076</u>	<u>296,309</u>	<u>(23,233)</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses				
	<u>605</u>	<u>605</u>	<u>10,490</u>	<u>9,885</u>
Net Change in Fund Balance	605	605	10,490	9,885
<i>Fund Balance at Beginning of Period</i>	324,392	324,392	324,392	--
Fund Balance at End of Period	<u>\$ 324,997</u>	<u>\$ 324,997</u>	<u>\$ 334,882</u>	<u>\$ 9,885</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
Fire
For the Year Ended December 31, 2023

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Over (Under)
				Final to Actual
Revenues				
Refunds and Reimbursements	\$ --	\$ --	\$ 12,673	\$ 12,673
Interest Revenue	300	300	1,489	1,189
Miscellaneous	--	--	100	100
Township Contracts	8,250	8,250	15,580	7,330
User charges	1,500	1,500	4,523	3,023
Sale of Assets	--	--	4,000	4,000
Total Revenues	<u>10,050</u>	<u>10,050</u>	<u>38,365</u>	<u>28,315</u>
Other Financing Sources				
Transfers from Other Funds	<u>3,500</u>	<u>3,500</u>	<u>10,060</u>	<u>6,560</u>
Total Revenues and Other Financing Sources	<u>13,550</u>	<u>13,550</u>	<u>48,425</u>	<u>34,875</u>
Expenditures				
Salaries	2,000	2,000	2,221	(221)
Payroll Taxes	210	210	208	2
Professional Fees	2,500	2,500	2,257	243
Dues/Conferences/Training	1,500	1,500	4,876	(3,376)
Supplies	1,475	1,475	3,933	(2,458)
Repairs/Maintenance	3,300	3,300	6,215	(2,915)
Civil Defense Per Diem	500	500	500	--
Utilities	150	150	116	34
Capital Outlay	<u>3,000</u>	<u>3,000</u>	<u>14,565</u>	<u>(11,565)</u>
Total Expenditures	<u>14,635</u>	<u>14,635</u>	<u>34,891</u>	<u>(20,256)</u>
Other Financing Uses				
Total Expenditures and Other Financing Uses	<u>14,635</u>	<u>14,635</u>	<u>34,891</u>	<u>(20,256)</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	<u>(1,085)</u>	<u>(1,085)</u>	<u>13,534</u>	<u>14,619</u>
Net Change in Fund Balance	<u>(1,085)</u>	<u>(1,085)</u>	<u>13,534</u>	<u>14,619</u>
Fund Balance at Beginning of Period	<u>177,517</u>	<u>177,517</u>	<u>177,517</u>	<u>--</u>
Fund Balance at End of Period	<u>\$ 176,432</u>	<u>\$ 176,432</u>	<u>\$ 191,051</u>	<u>\$ 14,619</u>

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

CITY OF MILROY
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2023

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, 2023

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, 2023

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 nonmajor 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, 2023

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, 2023

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, 2023

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, 2023

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, 2023

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, 2023

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, 2023

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, 2023, the unassigned fund balance of the General Fund was 53% 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, 2023

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, 2023

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, 2023

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, 2023, a summary of the governmental fund balance classifications are as follows:

	General Fund	Fire Fund	2022 Tax Abatement	Other Governmental Funds	Totals
Nonspendable:					
Prepaid items	\$ 9,634	\$ -	\$ -	\$ -	\$ 9,634
Restricted:					
Public Safety Aid	11,203	-	-	-	11,203
Debt Service	-	-	71,431	-	71,431
Committed to:					
Capital Acquisition	53,774	153,483	-	5,404	212,661
Sealcoating/Crack filling	117,805	-	-	-	117,805
Assigned:					
Fire	-	37,568	-	-	37,568
Economic Development	-	-	-	56,977	56,977
Unassigned	142,466	-	-	-	142,466
Total Fund Balances	<u>\$ 334,882</u>	<u>\$ 191,051</u>	<u>\$ 71,431</u>	<u>\$ 62,381</u>	<u>\$ 659,745</u>

C. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

The following fund had excess expenditures over appropriations as of December 31, 2023:

General Fund	\$22,673
Fire Fund	\$20,256

D. DEFICIT FUND BALANCES

There were no funds with a deficit fund balances as of December 31, 2023.

CITY OF MILROY
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2023

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, 2023

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 \$961,822 at December 31, 2023, 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, 2023 was \$955,407.

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, 2023

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, 2023

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, 2023 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, 2023 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. The balance as of December 31, 2023 is \$8,031. Delinquent taxes have been offset by deferred inflows of resources for delinquent taxes not received within 60 days after year-end in the governmental fund financial statements. The deferred inflow amount as of December 31, 2023 is \$6,659.

CITY OF MILROY
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 3. DETAIL NOTES ON ALL FUNDS (Continued)

C. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2023 is as follows:

Governmental Activities:	Balance 1/1/2022	Additions	Deletions	Balance 12/31/2023
Capital Assets Not Being Depreciated:				
Land	\$ 27,987	\$ -	\$ -	\$ 27,987
Total Capital Assets Not Being Depreciated	27,987	-	-	27,987
Capital Assets Being Depreciated:				
Buildings and Improvements	2,365,061	10,020	12,000	2,363,081
Machinery and Equipment	864,015	20,181	51,075	833,121
Total Capital Assets Being Depreciated	3,229,076	30,201	63,075	3,196,202
Less Accumulated Depreciation for:				
Buildings and Improvements	277,385	75,655	9,450	343,590
Machinery and Equipment	664,890	46,500	51,075	660,315
Total Accumulated Depreciation	942,275	122,155	60,525	1,003,905
Total Capital Assets Being Depreciated, Net	2,286,801			2,192,297
Governmental Activity Capital Assets, Net	\$ 2,314,788			\$ 2,220,284
Business-Type Activities:	Balance 1/1/2022	Additions	Deletions	Balance 12/31/2023
Capital Assets Being Depreciated:				
Equipment and Improvements	\$ 637,202	\$ -	\$ -	\$ 637,202
Total Capital Assets Being Depreciated	637,202	-	-	637,202
Less Accumulated Depreciation for:				
Equipment and Improvements	408,934	24,179	-	433,112
Total Accumulated Depreciation	408,934	24,179	-	433,112
Total Capital Assets Being Depreciated, Net	228,268			204,089
Business-Type Activity Capital Assets, Net	\$ 228,268			\$ 204,089

Depreciation Expense was charged to functions/programs as follows:

Governmental Activities:		Business-Type Activities:	
General Government	\$ -	Water	\$ 17,923
Public Safety	20,650	Garbage	-
Street and Highways	89,314	Sewer	6,255
Culture & Recreation	4,611	Total Depreciation Expense-	
Depreciation-Unallocated	7,580	Business-Type Activities	\$ 24,179
Total Depreciation Expense-			
Governmental Activities	\$ 122,155		

CITY OF MILROY
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2023

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, 2023:

Issuance:	<u>Original Issuance</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Debt Outstanding</u>
Governmental Activities				
Tax Abatement Bond, Series 2023A	\$64,408	04/07/2043	2.25%	\$ 64,408
Tax Abatement Bond, Series 2023B	\$1,976,500	04/07/2043	2.50%	1,976,500
Business-Type Activities:				
GO Utility Revenue Bond	\$451,000	02/01/2030	2.95%	<u>95,000</u>
Total Outstanding Long-term Debt				<u>\$ 2,135,908</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 2023 was \$2,844.

The City issued general obligation tax abatement bonds for the 2022 street project. The debt service fund will be 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 2023 was \$21,588.

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 provided interim financing of \$2,313,000 at an interest rate of 3.5%. Interest payments due semi-annually. This loan was permanently financed with United States Department of Agriculture – Rural Development during 2023.

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, 2023

NOTE 3. DETAIL NOTES ON ALL FUNDS (Continued)

E. LONG-TERM LIABILITIES (Continued)

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 113,862	\$ 48,428	\$ 162,290
2025	116,710	45,622	162,332
2026	115,600	42,803	158,403
2027	87,533	40,427	127,960
2028	89,509	38,451	127,960
2029-2033	478,789	161,012	639,800
2034-2038	535,337	104,463	639,800
2039-2043	598,567	41,216	639,784
	<u>\$ 2,135,908</u>	<u>\$ 522,421</u>	<u>\$ 2,658,329</u>

Changes in Long-Term Liabilities

	<u>Balance</u> <u>12/31/22</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>12/31/23</u>	<u>Due in</u> <u>One Year</u>
Governmental Activities:					
Tax Abatement Bond, Series 2022A	\$ 2,313,000	\$ -	\$2,313,000	\$ -	\$ -
Tax Abatement Bond, Series 2023A	-	64,408	-	64,408	2,521
Tax Abatement Bond, Series 2023B	-	1,976,500	-	1,976,500	79,341
Accrued Leave (net change)	12,036	4,855	-	16,891	-
Total Governmental Activities	<u>2,325,036</u>	<u>2,045,763</u>	<u>2,313,000</u>	<u>2,057,799</u>	<u>81,862</u>
Business-Type Activities:					
GO Utility Revenue Bond	126,000	-	31,000	95,000	32,000
Accrued Leave (net change)	2,652	2,569	-	5,222	-
Total Business-Type Activities	<u>128,652</u>	<u>2,569</u>	<u>31,000</u>	<u>100,222</u>	<u>32,000</u>
	<u>\$2,453,688</u>	<u>\$2,048,332</u>	<u>\$2,344,000</u>	<u>\$ 2,158,020</u>	<u>\$ 113,862</u>

F. INTERFUND TRANSACTIONS

Inter-fund Transfers

Transfers between funds of the primary government for the year ended December 31, 2023 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	\$6,560

CITY OF MILROY
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 3. DETAIL NOTES ON ALL FUNDS (Continued)

F. INTERFUND TRANSACTIONS (Continued)

Inter-fund Balances

At December 31, 2023, 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, 2023, 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.

CITY OF MILROY
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2023

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 did not expend more than \$750,000 of federal financial assistance and therefore is not 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, 2023

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. In 2023, legislation repealed the statute delaying increases for members retiring before full retirement age.

CITY OF MILROY
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2023

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

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 2023; 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, 2023, 2022, and 2021 were \$8,347, \$7,708 and \$7,111, 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, 2023, the City reported a liability of \$78,286 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 \$2,100.

The net pension liability was measured as of June 30, 2023, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City’s proportionate share of the net pension liability was based on the City’s contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2022, through June 30, 2023, relative to the total employer contributions received from all of PERA’s participating employers. The City’s proportionate share was 0.0014% at the end of the measurement period and 0.0013% for the beginning of the period.

Entity’s proportionate share of the net pension liability	\$76,286
State of Minnesota’s proportionate share of the net pension liability associated with the City	<u>2,100</u>
Total	<u>\$78,386</u>

CITY OF MILROY
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2023

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

D. PENSION COSTS (Continued)

For the year ended December 31, 2023, the City recognized pension expense of \$2,006 for its proportionate share of General Employee Fund’s pension expense. In addition, the City recognized an additional \$9 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota’s contribution of \$16 million to the General Employees Fund.

At December 31, 2023, the City reported its proportionate share of 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	\$ 2,527	\$ 501
Changes in Actuarial Assumptions	11,768	21,458
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	-	3,059
Changes in Proportion	5,940	19,487
Employer Contributions Subsequent to the Measurement Date	4,141	-
Totals	<u>\$ 24,377</u>	<u>\$ 44,505</u>

\$4,141 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, 2024. 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>
2024	(\$16,160)
2025	(\$9,501)
2026	\$3,092
2027	(\$1,700)

CITY OF MILROY
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2023

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:

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

F. ACTUARIAL METHODS AND ASSUMPTIONS

The total pension liability in the June 30, 2023 actuarial valuation was determined using an individual entry-age normal actuarial cost method. The long-term rate of return on pension plan investments used in the determination of the total liability is 7.0 percent. This assumption is based on a review of inflation and investments return assumptions from a number of 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 7.0 percent was deemed to be within that range of reasonableness for financial reporting purposes.

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

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 2022. The assumption changes were adopted by the Board and became effective with the July 1, 2023 actuarial evaluation.

CITY OF MILROY
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2023

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 2023:

General Employees Fund

Changes in Actuarial Assumptions:

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

Changes in Plan Provisions:

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

G. DISCOUNT RATE

The discount rate used to measure the total pension liability in 2023 was 7.0%. 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, 2023

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 (6.0%)	Current Discount Rate (7.0%)	1% Increase in Discount Rate (8.0%)
City’s proportionate share of the General Employees Fund net pension liability:	\$138,495	\$78,286	\$28,763

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.

**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
Ending							
6/30/23	0.0014%	\$78,286	\$2,100	\$80,386	\$110,577	72.70%	83.10%
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, 2023	\$8,347	\$8,347	-	\$111,297	7.50%
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, 2023

NOTE 1. DEFINED BENEFIT PENSION PLANS – STATEWIDE

General Employees Fund

2023 Changes

Changes in Actuarial Assumptions:

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

Changes in Plan Provisions:

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

2022 Changes

Changes in Actuarial Assumptions:

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

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, 2023

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.

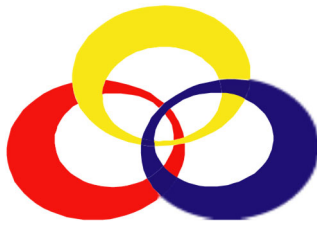
OTHER SUPPLEMENTARY INFORMATION

**City of Milroy
Combining Balance Sheet
Nonmajor Governmental Funds
December 31, 2023**

	<u>Special Revenue</u>		<u>Total Nonmajor Governmental Funds</u>
	<u>Economic Development Authority</u>	<u>Fitness Center</u>	
ASSETS			
Cash and Cash Equivalents	\$ 57,953	\$ 7,905	\$ 65,858
<i>Total Assets</i>	<u>57,953</u>	<u>7,905</u>	<u>65,858</u>
DEFERRED OUTFLOWS OF RESOURCES			
Aggregated deferred outflows	--	--	--
<i>Total Assets and Deferred Outflows of Resources</i>	<u>\$ 57,953</u>	<u>\$ 7,905</u>	<u>\$ 65,858</u>
LIABILITIES			
Accounts Payable	\$ 126	\$ 1	\$ 127
Deposits	850	--	850
Unearned Revenue	--	2,500	2,500
<i>Total Liabilities</i>	<u>976</u>	<u>2,501</u>	<u>3,477</u>
DEFERRED INFLOWS OF RESOURCES			
Aggregated deferred inflows	--	--	--
<i>Total Liabilities and Deferred Inflows of Resources</i>	<u>976</u>	<u>2,501</u>	<u>3,477</u>
FUND BALANCE			
Committed	--	5,404	5,404
Assigned	56,977	--	56,977
Unassigned	--	--	--
<i>Total Fund Balance</i>	<u>56,977</u>	<u>5,404</u>	<u>62,381</u>
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balance</i>	<u>\$ 57,953</u>	<u>\$ 7,905</u>	<u>\$ 65,858</u>

City of Milroy
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance
Nonmajor Governmental Funds
For the Year Ended December 31, 2023

	<u>Special Revenue</u>		<u>Total Nonmajor Governmental Funds</u>
	<u>Economic Development Authority</u>	<u>Fitness Center</u>	
Revenues			
Charges for Services	\$ 9,900	\$ 7,531	\$ 17,431
<i>Total Revenues</i>	<u>9,900</u>	<u>7,531</u>	<u>17,431</u>
Expenditures			
Economic Development	3,675	--	3,675
Fitness Center	--	4,388	4,388
<i>Total Expenditures</i>	<u>3,675</u>	<u>4,388</u>	<u>8,063</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>6,225</u>	<u>3,143</u>	<u>9,368</u>
Other Financing Sources (Uses)			
Transfers from Other Funds	--	--	--
Transfers to Other Funds	--	--	--
<i>Net Other Financing Sources (Uses)</i>	<u>--</u>	<u>--</u>	<u>--</u>
<i>Net Change in Fund Balance</i>	6,225	3,143	9,368
<i>Fund Balance at Beginning of Period</i>	<u>50,752</u>	<u>2,261</u>	<u>53,013</u>
<i>Fund Balance at End of Period</i>	\$ 56,977	\$ 5,404	\$ 62,381



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, 2023, 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 March 25, 2024.

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 Prior and Current Findings and Responses, 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 Prior and Current Findings and Responses, as items 2023-001 and 2023-002, to be material weaknesses.

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

March 25, 2024

**CITY OF MILROY
SCHEDULE OF PRIOR AND CURRENT
FINDINGS AND RESPONSES
DECEMBER 31, 2023**

STATUS OF PRIOR AUDIT FINDINGS

Finding 2022-001: A material weakness was reported due to the lack of segregation of duties within the organization. This finding continues to exist and has been restated as Finding 2023-001.

Finding 2022-002: A material weakness was reported due to significant audit adjustments. This finding continues to exist and has been restated as Finding 2023-002.

CITY OF MILROY
SCHEDULE OF PRIOR AND CURRENT
FINDINGS AND RESPONSES
DECEMBER 31, 2023

CURRENT YEAR FINDINGS

2023-001: 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 affect 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 PRIOR AND CURRENT
FINDINGS AND RESPONSES
DECEMBER 31, 2023

2023-002: 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.