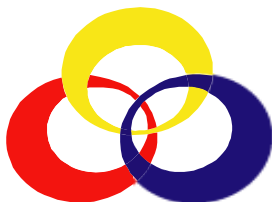


FINANCIAL AUDIT REPORT
FOR THE YEAR ENDED
DECEMBER 31, 2020



CITY OF MILROY,
MINNESOTA



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

**CITY OF MILROY
MILROY, MINNESOTA
TABLE OF CONTENTS**

INTRODUCTORY SECTION	
Elected and Appointed Officials	1
FINANCIAL SECTION	
Independent Auditor’s Report	2-3
Required Supplementary Information (Unaudited)	
Management’s Discussion and Analysis	4-15
Basic Financial Statements	
<i>Government-Wide Financial Statements:</i>	
Statement of Net Position	16
Statement of Activities	17
<i>Fund Financial Statements:</i>	
Balance Sheet - Governmental Funds	18
Reconciliation of the Governmental Funds	
Balance Sheet to the Statement of Net Position	19
Statement of Revenues, Expenditures, and Changes	
in Fund Balances - Governmental Funds	20
Reconciliation of the Governmental Funds	
Statement of Revenues, Expenditures, and	
Changes in Fund Balances with the Statement	
of Activities	21
Statement of Net Position - Proprietary Funds	22
Statement of Revenues, Expenses, and Changes	
in Net Position - Proprietary Funds	23
Statement of Cash Flows - Proprietary Funds	24
General Fund - Statement of Revenues, Expenditures,	
and Changes in Fund Balance – Budget and Actual	25-26
Fire Fund - Statement of Revenues, Expenditures,	
and Changes in Fund Balance – Budget and Actual	27
Notes to Basic Financial Statements	28-55
Required Supplementary Information	
Schedule of City’s Proportionate Share of Net Pension Liability	56
Schedule of City’s Contributions	57
Notes to the Required Supplementary Information	58-59
Other Supplementary Information	
Combining Balance Sheet-Nonmajor Governmental Funds	60
Combining Statement of Revenues, Expenditures, and Changes in	
Fund Balances-Nonmajor Governmental Funds	61
Independent Auditor’s Report on Internal Control over Financial	
Reporting on Compliance and Other Matters Based on an Audit	
of Financial Statements Performed in Accordance with	
<i>Government Auditing Standards</i>	62-63
Schedule of Prior and Current Findings and Responses	64-65

INTRODUCTORY SECTION

**CITY OF MILROY
MILROY, MINNESOTA
DECEMBER 31, 2020**

ELECTED AND APPOINTED OFFICIALS

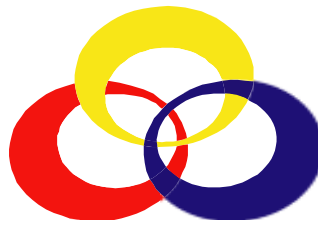
Elected

Mike Schmitt	Mayor
Cheryl Bowman	Council Member
Colleen Brooks	Council Member
Renee Zwach	Council Member
Matt Dvorak	Council Member

Appointed

Bette Snyder	Clerk-Treasurer
Kevin Passe	Attorney

FINANCIAL SECTION



Kinner & Company Ltd
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit includes performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position 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 December 31, 2020, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund and the Fire Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 4 to the financial statements, the City has implemented the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606), as amended by subsequent ASUs (collectively, ASC 606). Our opinion is not modified with respect to this matter.

Other Matters*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Required Supplementary Information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Milroy, Minnesota's basic financial statements. The introductory section and combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements.

The combining nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting records 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.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2021, on our consideration of the City of Milroy, Minnesota's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is 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
Certified Public Accountants

March 22, 2021

**CITY OF MILROY
MANAGEMENT’S DISCUSSION AND ANALYSIS
DECEMBER 31, 2020**

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, 2020.

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 \$1,129,213 (net position). Of this amount, \$613,334 (unrestricted net position) may be used to meet the City’s ongoing obligations to citizens and creditors.
- The City’s total net position increased by \$127,028, compared to a decrease of \$45,968 in the previous year. Of this increase, business-type activities (enterprise funds) had an increase of \$30,793 and governmental activities had an increase of \$96,235. The major factor in the change in governmental activities was due to FEMA funds received for \$67,500. The major factor contributing to the increase in business-type activities relates to the additional debt improvement revenue and less expenses.
- As of the close of the current fiscal year, the City’s governmental funds reported combined ending fund balances of \$439,547, an increase of \$111,494 in comparison with the prior year. Approximately 33 percent of this total amount, \$143,399 is available for spending at the City’s discretion. The remainder of fund balance is 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, 2020**

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

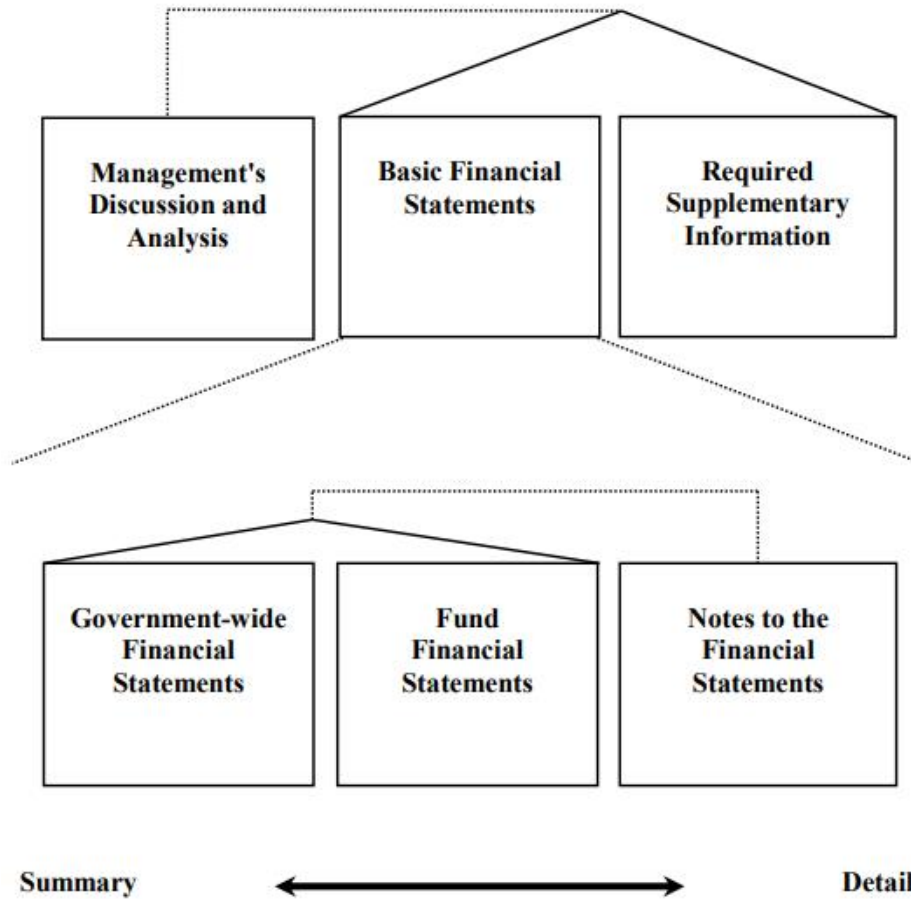


Figure 2 summarizes the major features of the City's financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the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

**CITY OF MILROY
MANAGEMENT’S DISCUSSION AND ANALYSIS
DECEMBER 31, 2020**

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, 2020

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 four governmental funds; the General 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 and Fire fund, 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, 2020

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 18 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 22 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 28 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 55 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 \$1,129,213 at the close of the most recent fiscal year.

A portion of the City's net position (46 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, 2020**

City of Milroy's Summary of Net Position

	Governmental Activities		Business-Type Activities		2020
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>	<u>Total</u>
Current and other assets	\$448,844	\$337,710	\$257,214	\$243,663	\$706,058
Capital assets	403,633	418,547	297,247	318,190	700,880
Total assets	<u>852,477</u>	<u>756,257</u>	<u>554,461</u>	<u>561,853</u>	<u>1,406,938</u>
Deferred outflows	7,720	5,891	3,976	3,036	11,696
Long-term liabilities outstanding	61,142	50,914	185,614	210,190	246,756
Other liabilities	3,348	4,220	33,171	41,954	36,519
Total liabilities	<u>64,490</u>	<u>55,134</u>	<u>218,785</u>	<u>252,144</u>	<u>283,275</u>
Deferred inflows	4,056	11,600	2,090	5,976	6,146
Net position					
Net investment in capital assets	403,633	418,547	112,246	104,559	515,879
Unrestricted	388,018	276,867	225,316	202,210	613,334
	<u>\$791,651</u>	<u>\$695,414</u>	<u>\$337,562</u>	<u>\$306,769</u>	<u>\$1,129,213</u>

The remaining balance of unrestricted net position (54 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 \$30,793 in net position reported in connection with the City's business-type activities. This increase was a result of the following funds: Sewer decrease of \$11,139, Water increase of \$39,702 and Garbage increase of \$2,230.

CITY OF MILROY
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2020

Governmental activities. Governmental activities increased the City's net position by \$96,235. Key elements of this decrease are described above and summarized as follows:

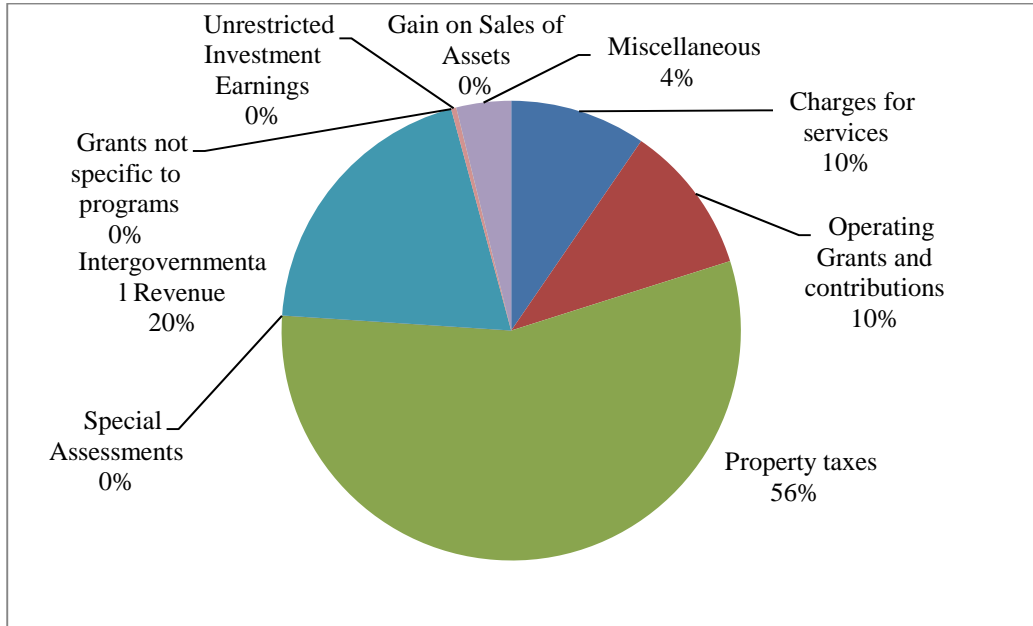
City of Milroy's Changes in Net Position

	Governmental Activities		Business-type Activities		2020
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>	<u>Total</u>
Revenues:					
Charges for services	\$31,067	\$34,245	\$153,731	\$151,832	\$184,798
Operating Grants and contributions	34,272	9,507			34,272
Capital grants and contributions	67,500	0			67,500
General Revenues					
Property taxes	181,890	165,489			181,890
Special Assessments	0	0	776	0	776
Intergovernmental Revenue	64,169	62,536	0	0	64,169
Grants & Contributions not restricted to specific programs	0	1,342			0
Unrestricted Investment Earnings	1,171	1,040			1,171
Gain on Sales of Assets	0	0			0
Miscellaneous	12,510	9,467	0	0	12,510
Total Revenues	392,579	283,626	154,507	151,832	547,086
Expenses:					
General Administrative	171,914	149,692			171,914
Public Safety	39,849	36,198			39,849
Streets & Highways	60,762	140,334			60,762
Cultural & Recreation	5,901	6,790			5,901
Economic Development	3,122	3,851			3,122
Fitness Center	5,375	5,032			5,375
Depreciation - Unallocated	9,421	9,653			9,421
Water	0	0	76,030	83,442	76,030
Sewer	0	0	32,998	32,733	32,998
Garbage	0	0	14,686	13,701	14,686
Total expenses	296,344	351,550	123,714	129,876	420,058
Transfers	0	0	0	0	0
Increase (Decrease) in net position	96,235	(67,924)	30,793	21,956	127,028
Net Position, January 1	695,416	763,340	306,769	284,813	1,002,185
Net Position, December 31	\$791,651	\$695,416	\$337,562	\$306,769	\$1,129,213

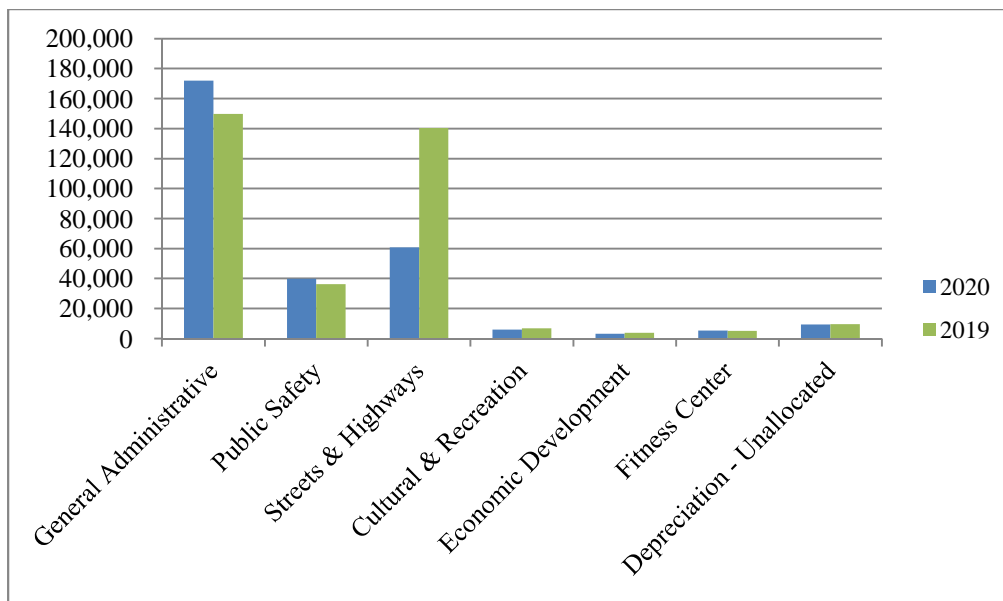
**CITY OF MILROY
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2020**

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

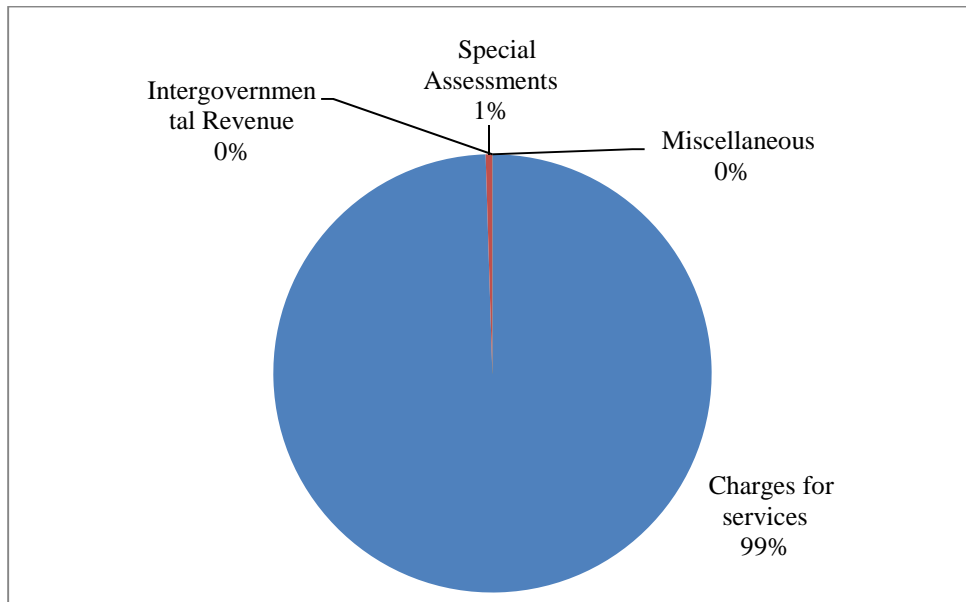


**CITY OF MILROY
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2020**

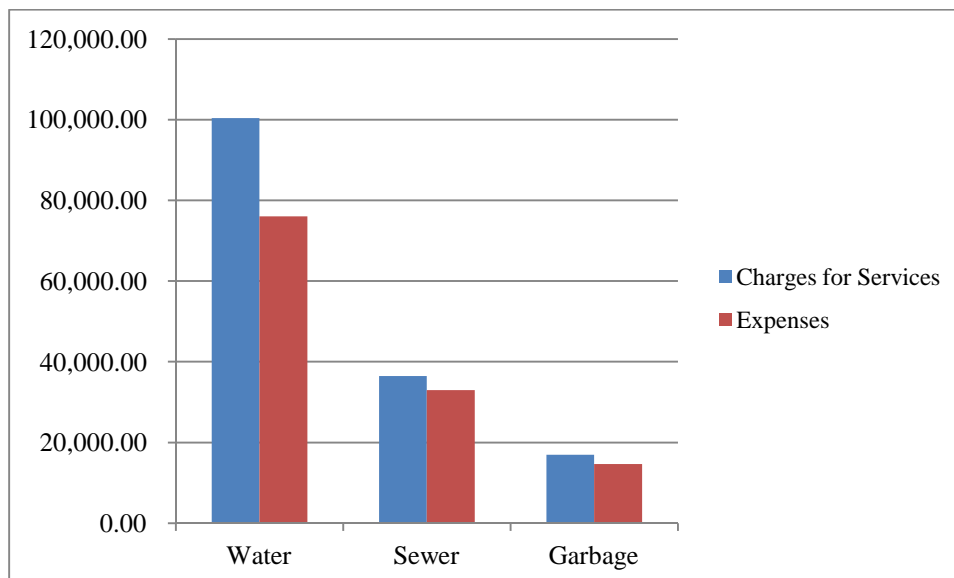
Business-type activities. Business-type activities increased the City's net position by \$30,793. Key elements of this increase are as follows:

- Overall revenue increased by \$2,675 in the business-type funds while operating expenses decreased by \$6,162. The increase relates to excess revenues over expenses.

Revenues by Source- Business-type Activities



Charges for Services and Expenses – Business-type Activities



CITY OF MILROY
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2020

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 \$238,208. 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 61 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 \$104,217 during the current fiscal year. The keys factor in this increase relate to funds for FEMA and less expenditures.

The Fire fund has a total fund balance of \$160,634. There was an increase in fund balance during the current year of \$13,930. The increase was mainly due to a transfer from the General fund and less expenditures needed during the year.

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 \$225,316. The total increase in net position for the funds was \$30,793. 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 \$94,578 largely due to FEMA and CARES funds and actual expenditures were \$14,754 under budget. The net result was an increase to the General fund balance of \$104,217 in 2020.

**CITY OF MILROY
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2020**

Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets for its governmental and business type activities as of December 31, 2020 amounts to \$700,880 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment. The total increase in the City's investment in capital assets for the current fiscal year was less than 1 percent.

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

The purchase of a new truck, sewer pump and fire equipment.

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		2020
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>	<u>Total</u>
Land	\$27,987	\$27,987	\$0	\$0	\$27,987
Buildings & Improvements	397,246	392,955	637,202	630,447	1,034,448
Equipment	803,168	784,339	0	0	803,168
Totals	<u>1,228,401</u>	<u>1,205,281</u>	<u>637,202</u>	<u>630,447</u>	<u>1,865,603</u>
Less Accumulated Depreciation	<u>(824,768)</u>	<u>(786,734)</u>	<u>(339,955)</u>	<u>(312,257)</u>	<u>(1,164,723)</u>
Net Capital Assets	<u>\$403,633</u>	<u>\$418,547</u>	<u>\$297,247</u>	<u>\$318,189</u>	<u>\$700,880</u>

Long-term debt. At the end of the current fiscal year, the City had total debt outstanding of 185,000. All of the City's debt is all backed by the full faith and credit of the City.

City of Milroy's Outstanding Debt

	Business-Type Activities	
	<u>2020</u>	<u>2019</u>
GO Utility Revenue Bond	<u>\$ 185,000</u>	<u>\$ 213,000</u>
Totals	<u>\$ 185,000</u>	<u>\$ 213,000</u>

The City's total debt decreased 13 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, 2020**

Economic Factors and Next Year's Budgets and Rates

The City's elected and appointed officials considered many factors when setting the fiscal year 2021 budget, tax rates and fees that will be charged for the business-type activities. The Council expects operations to remain consistent with 2020.

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, 2020

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
<i>Current Assets</i>			
Cash and Cash Equivalents	\$ 430,741	\$ 248,256	\$ 678,997
Delinquent Taxes Receivable	9,809	--	9,809
Accounts Receivable	1,534	8,806	10,340
Special Assessments Receivable	--	152	152
Prepaid and Other Assets	6,760	--	6,760
Total Current Assets	448,844	257,214	706,058
<i>Noncurrent Assets</i>			
Non-Depreciable	27,987	--	27,987
Depreciable, Net	375,646	297,247	672,893
Total Assets	852,477	554,461	1,406,938
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Outflows Related to Pensions	7,720	3,976	11,696
Total Deferred Outflows of Resources	7,720	3,976	11,696
LIABILITIES			
<i>Current Liabilities</i>			
Accounts Payable	2,148	1,917	4,065
Accrued Interest Payable	--	2,254	2,254
Deposits	1,200	--	1,200
Bonds Payable-due within one year	--	29,000	29,000
Total Current Liabilities	3,348	33,171	36,519
<i>Noncurrent Liabilities</i>			
Accrued Leave	5,744	1,076	6,820
Bonds Payable-due beyond one year	--	156,000	156,000
Net Pension Liability	55,398	28,538	83,936
Total Liabilities	64,490	218,785	283,275
DEFERRED INFLOWS OF RESOURCES			
Deferred Inflows Relating to Pensions	4,056	2,090	6,146
Total Deferred Inflows of Resources	4,056	2,090	6,146
NET POSITION			
Net Investment in Capital Assets	403,633	112,246	515,879
<i>Unrestricted</i>	388,018	225,316	613,334
Total Net Position	\$ 791,651	\$ 337,562	\$ 1,129,213

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, 2020

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Primary Government</u>		
					<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Primary Government							
Governmental Activities:							
General Government and Administration	\$ 171,914	\$ 3,815	\$ 12,364	\$ --	\$ (155,735)	\$ --	\$ (155,735)
Public Safety	39,849	15,761	20,716	--	(3,372)	--	(3,372)
Streets and Highways	60,762	--	--	67,500	6,738	--	6,738
Culture and Recreation	5,901	--	--	--	(5,901)	--	(5,901)
Economic Development	3,122	7,795	--	--	4,673	--	4,673
Fitness Center	5,375	3,696	1,192	--	(487)	--	(487)
Depreciation-Unallocated	9,421	--	--	--	(9,421)	--	(9,421)
Total Governmental Activities	296,344	31,067	34,272	67,500	(163,505)	--	(163,505)
Business-type Activities:							
Garbage	14,686	16,916	--	--	--	2,230	2,230
Sewer	32,998	36,471	--	--	--	3,473	3,473
Water	76,030	100,344	--	--	--	24,314	24,314
Total Business-type Activities	123,714	153,731	--	--	--	30,017	30,017
Total Primary Government	\$ 420,058	\$ 184,798	\$ 34,272	\$ 67,500	\$ (163,505)	\$ 30,017	\$ (133,488)

General Purpose Revenues and Transfers:

Revenues

Taxes	181,890	--	181,890
Special Assessments	--	776	776
Local Government Aid	64,169	--	64,169
Interest Revenue	1,171	--	1,171
Gain (Loss) on Sale of Assets	1,977	--	1,977
Insurance Dividends	8,434	--	8,434
Other	474	--	474
Refunds and Reimbursements	1,625	--	1,625

Transfers

Total General Revenues and Transfers	259,740	776	260,516
Change in Net Position	96,235	30,793	127,028
<i>Net Position at Beginning of Period</i>	<i>695,416</i>	<i>306,769</i>	<i>1,002,185</i>
Net Position at End of Period	\$ 791,651	\$ 337,562	\$ 1,129,213

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

**City of Milroy
Balance Sheet
Governmental Funds
December 31, 2020**

	<u>Special Revenue</u>			Total Governmental Funds
	<u>General</u>	<u>Fire</u>	<u>Other Governmental Funds</u>	
ASSETS				
Cash and Cash Equivalents	\$ 229,120	\$ 159,559	\$ 42,062	\$ 430,741
Delinquent Taxes Receivable	9,809	--	--	9,809
Accounts Receivable	--	1,534	--	1,534
Prepaid and Other Assets	6,760	--	--	6,760
<i>Total Assets</i>	<u>245,689</u>	<u>161,093</u>	<u>42,062</u>	<u>448,844</u>
DEFERRED OUTFLOWS OF RESOURCES				
Aggregated deferred outflows	--	--	--	--
<i>Total Assets and Deferred Outflows of Resources</i>	<u>\$ 245,689</u>	<u>\$ 161,093</u>	<u>\$ 42,062</u>	<u>\$ 448,844</u>
LIABILITIES				
Accounts Payable	\$ 1,532	\$ 459	\$ 157	\$ 2,148
Deposits	--	--	1,200	1,200
<i>Total Liabilities</i>	<u>1,532</u>	<u>459</u>	<u>1,357</u>	<u>3,348</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenue - Taxes	5,949	--	--	5,949
<i>Total Liabilities and Deferred Inflows of Resources</i>	<u>7,481</u>	<u>459</u>	<u>1,357</u>	<u>9,297</u>
FUND BALANCE				
Nonspendable	6,760	--	--	6,760
Committed	88,049	160,634	1,556	250,239
Assigned	--	--	39,149	39,149
Unassigned	143,399	--	--	143,399
<i>Total Fund Balance</i>	<u>238,208</u>	<u>160,634</u>	<u>40,705</u>	<u>439,547</u>
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balance</i>	<u>\$ 245,689</u>	<u>\$ 161,093</u>	<u>\$ 42,062</u>	<u>\$ 448,844</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, 2020

Total Fund Balance - Governmental Funds	\$	439,547
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		(5,744)
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.		403,634
Receivables to be collected, but not available soon enough to pay for the current period's expenditures, and therefore are reported as deferred inflows.		5,949
Net pension liability is not due and payable in the current period from current financial resources, and therefore are not reported in the funds.		(55,398)
Pension related deferred inflows are not due and payable in the current period from current financial resources, and therefore are not reported in funds.		(4,056)
Pension related deferred outflows are not available to pay for current period expenditures and therefore are deferred in the funds.		7,720
Total Net Position-Governmental Funds	\$	<u>791,651</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, 2020

	<u>Special Revenue</u>		Other Governmental Funds	Total Governmental Funds
	<u>General</u>	<u>Fire</u>		
Revenues				
Taxes	\$ 181,379	\$ --	\$ --	\$ 181,379
Local Government Aid	64,169	--	--	64,169
Grants	12,364	11,053	1,192	24,609
FEMA	67,500	--	--	67,500
Other State Aid	9,663	--	--	9,663
Licenses, Permits, Fines, and Fees	3,815	--	--	3,815
Charges for Services	--	15,761	11,491	27,252
Refunds and Reimbursements	--	1,625	--	1,625
Insurance Dividends	8,434	--	--	8,434
Other	474	--	--	474
Interest Revenue	668	503	--	1,171
Total Revenues	<u>348,466</u>	<u>28,942</u>	<u>12,683</u>	<u>390,091</u>
Expenditures				
General Government and Administration	168,042	--	--	168,042
Public Safety	11,163	14,912	--	26,075
Streets and Highways	36,794	--	--	36,794
Culture and Recreation	936	--	--	936
Economic Development	--	--	3,122	3,122
Fitness Center	--	--	5,375	5,375
Capital Outlay	17,814	9,600	10,839	38,253
Total Expenditures	<u>234,749</u>	<u>24,512</u>	<u>19,336</u>	<u>278,597</u>
Excess of Revenues Over (Under) Expenditures	<u>113,717</u>	<u>4,430</u>	<u>(6,653)</u>	<u>111,494</u>
Other Financing Sources (Uses)				
Transfers from Other Funds	--	9,500	--	9,500
Transfers to Other Funds	(9,500)	--	--	(9,500)
Net Other Financing Sources (Uses)	<u>(9,500)</u>	<u>9,500</u>	<u>--</u>	<u>--</u>
Net Change in Fund Balance	104,217	13,930	(6,653)	111,494
<i>Fund Balance at Beginning of Period</i>	<u>133,991</u>	<u>146,704</u>	<u>47,358</u>	<u>328,053</u>
Fund Balance at End of Period	<u>\$ 238,208</u>	<u>\$ 160,634</u>	<u>\$ 40,705</u>	<u>\$ 439,547</u>

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, 2020

Total Net Change in Fund Balances - Governmental Funds	\$	111,494
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.		511
Capital assets expensed as capital outlay in governmental fund statements, capitalized as capital assets in Statement of Net Position.		38,253
Depreciation expense reflected in entity wide statements, not reflected in governmental fund statements		(55,144)
The net effect of various transactions involving capital assets (i.e. Sales, trade-ins, and contributions) is to increase net position.		1,977
Accrued leave is reported in the government-wide statement of activities and changes in net position, but does not require the use of current financial resources; therefore, accrued leave is not reported as an expenditure in the government funds.		(2,266)
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.		1,411
Changes in Net Position-Governmental Funds	\$	<u>96,235</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, 2020

	Business-type Activities - Enterprise Funds			
	Sewer	Water	Non-Major Garbage	Total Enterprise Funds
ASSETS				
<i>Current Assets</i>				
Cash and Cash Equivalents	\$ 143,881	\$ 71,323	\$ 33,052	\$ 248,256
Accounts Receivable	2,162	5,100	1,544	8,806
Special Assessments Receivable	76	76	--	152
Total Current Assets	146,119	76,499	34,596	257,214
<i>Noncurrent Assets</i>				
Depreciable, Net	48,297	248,950	--	297,247
Total Assets	194,416	325,449	34,596	554,461
DEFERRED OUTFLOWS OF RESOURCES				
Deferred Outflows Related to Pensions	1,988	1,988	--	3,976
Total Deferred Outflows of Resources	1,988	1,988	--	3,976
LIABILITIES				
<i>Current Liabilities</i>				
Accounts Payable	103	86	1,728	1,917
Accrued Interest Payable	--	2,254	--	2,254
Bonds Payable-due within one year	--	29,000	--	29,000
Total Current Liabilities	103	31,340	1,728	33,171
<i>Noncurrent Liabilities</i>				
Accrued Leave	538	538	--	1,076
Bonds Payable-due beyond one year	--	156,000	--	156,000
Net Pension Liability	14,269	14,269	--	28,538
Total Liabilities	14,910	202,147	1,728	218,785
DEFERRED INFLOWS OF RESOURCES				
Deferred Inflows Related to Pensions	1,045	1,045	--	2,090
Total Deferred Inflows of Resources	1,045	1,045	--	2,090
NET POSITION				
Net Investment in Capital Assets	48,296	63,950	--	112,246
<i>Unrestricted</i>	132,153	60,295	32,868	225,316
Total Net Position	\$ 180,449	\$ 124,245	\$ 32,868	\$ 337,562

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, 2020

	Business-type Activities - Enterprise Funds			
	Sewer	Water	Non-Major Garbage	Total Enterprise Funds
Operating Revenues				
Charges for Services	\$ 8,211	\$ 53,234	\$ 16,916	\$ 78,361
Improvement Fees	28,260	47,110	--	75,370
Special Assessments	388	388	--	776
Total Operating Revenues	36,859	100,732	16,916	154,507
Operating Expenses				
Sewer Operations	2,936	--	--	2,936
Water Operations	--	13,036	--	13,036
Garbage Operations	--	--	14,686	14,686
Depreciation	5,547	31,316	--	36,863
Salaries and Wages	14,866	14,866	--	29,732
Payroll Taxes and Benefits	1,864	1,864	--	3,728
Dues/Conferences/Training	1,005	1,104	--	2,109
Office Supplies and Expenses	701	787	--	1,488
Telephone	160	162	--	322
Utilities	3,192	2,334	--	5,526
Repairs and Maintenance	1,601	3,137	--	4,738
Shop Supplies	1,126	1,520	--	2,646
Total Operating Expenses	32,998	70,126	14,686	117,810
Operating Income (Loss)	3,861	30,606	2,230	36,697
Non-Operating Revenues (Expenses)				
Interest Expense	--	(5,529)	--	(5,529)
Bond Issuance Costs	--	(375)	--	(375)
Net Non-Operating Revenues (Expenses)	--	(5,904)	--	(5,904)
Income Before Contributions and Transfers	3,861	24,702	2,230	30,793
Transfers from Other Funds	--	15,000	--	15,000
Transfers to Other Funds	(15,000)	--	--	(15,000)
Change In Net Position	(11,139)	39,702	2,230	30,793
<i>Net Position at Beginning of Period</i>	191,588	84,543	30,638	306,769
Net Position at End of Period	\$ 180,449	\$ 124,245	\$ 32,868	\$ 337,562

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, 2020

	Business-type Activities - Enterprise Funds			
	Major		Non-Major	Total
	Sewer	Water	Garbage	Enterprise Funds
Cash Flows from Operating Activities:				
Cash Received from Customers	\$ 37,360	\$ 91,520	\$ 16,720	\$ 145,600
Cash Received from Other Sources	388	876	-	1,264
Cash Paid to Employees	(14,704)	(14,704)	-	(29,408)
Cash Paid for Goods and Services	(12,845)	(24,650)	(14,087)	(51,582)
Net Cash Provided (Used) by Operating Activities	<u>10,199</u>	<u>53,042</u>	<u>2,633</u>	<u>65,874</u>
Cash Flows from Non-Capital Financing Activities:				
Operating Transfers In (Out)	(15,000)	15,000	-	-
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(15,000)</u>	<u>15,000</u>	<u>-</u>	<u>-</u>
Cash Flows from Capital and Related Financing Activities:				
Bond Costs	-	(375)	-	(375)
Principal Paid on Bond	-	(28,000)	-	(28,000)
Interest Paid on Bond	-	(5,871)	-	(5,871)
Purchase of Property and Equipment	(15,920)	-	-	(15,920)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(15,920)</u>	<u>(34,246)</u>	<u>-</u>	<u>(50,166)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>(20,721)</u>	<u>33,796</u>	<u>2,633</u>	<u>15,708</u>
Cash and Cash Equivalents - Beginning of Year	<u>164,602</u>	<u>37,527</u>	<u>30,420</u>	<u>232,549</u>
Cash and Cash Equivalents - End of Year	<u>\$ 143,881</u>	<u>\$ 71,323</u>	<u>\$ 33,052</u>	<u>\$ 248,256</u>

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

Cash Flows From Operating Activities:				
Operating Income (Loss)	\$ 3,861	\$ 30,606	\$ 2,230	\$ 36,697
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities				
Depreciation	5,547	31,316	-	36,863
Change in Pension Expense	(363)	(363)	-	(726)
Changes in Assets and Liabilities:				
Accounts Receivable	165	976	(196)	945
Special Assessments Receivable	724	488	-	1,212
Accounts Payable	103	(343)	599	359
Accrued Leave	162	162	-	324
Water Deposits	-	(9,800)	-	(9,800)
Net Cash Provided (Used) by Operating Activities	<u>\$ 10,199</u>	<u>\$ 53,042</u>	<u>\$ 2,633</u>	<u>\$ 65,874</u>

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

City of Milroy
Statement of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
General Fund
For the Year Ended December 31, 2020

	<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	\$ 165,000	\$ 165,000	\$ 181,379	\$ 16,379
Licenses and Permits	1,550	1,550	3,815	2,265
Local Government Aid	64,097	64,097	64,169	72
State Grants	--	--	79,864	79,864
PERA Aid	241	241	--	(241)
Fire Aid	3,500	3,500	9,663	6,163
Tax Abatement	16,500	16,500	--	(16,500)
Interest Revenue	500	500	668	168
Insurance Dividends	500	500	8,434	7,934
Miscellaneous	2,000	2,000	474	(1,526)
Total Revenues	<u>253,888</u>	<u>253,888</u>	<u>348,466</u>	<u>94,578</u>
Other Financing Sources				
Total Revenues and Other Financing Sources	<u>253,888</u>	<u>253,888</u>	<u>348,466</u>	<u>94,578</u>
Expenditures				
General Government:				
Mayor and Council Salaries	4,800	4,800	5,075	(275)
Clerk-Treasurer Salaries	55,000	55,000	50,000	5,000
Clerk-Treasurer Payroll Taxes and Benefits	11,522	11,522	10,888	634
Employee Health Insurance	24,546	24,546	25,171	(625)
Assessor Salaries	3,300	3,300	3,300	--
Election Expenditures	1,500	1,500	1,557	(57)
Tax Abatement	16,500	16,500	16,550	(50)
Travel	1,500	1,500	1,022	478
Bonds and Insurance	16,000	16,000	13,997	2,003
Professional Fees	14,500	14,500	12,868	1,632
Property Taxes/Ditch Lien	425	425	405	20
Dues/Conferences/Training	3,450	3,450	1,288	2,162
Office Supplies	3,350	3,350	10,499	(7,149)
Telephone	4,300	4,300	3,925	375
Utilities	7,000	7,000	7,343	(343)
Building Repairs and Maintenance	850	850	3,246	(2,396)
Miscellaneous	800	800	908	(108)
Capital Outlay	1,200	1,200	--	1,200

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, 2020

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>Final to Actual</u>
Public Safety:				
First Responders	500	500	500	--
Ambulance Dues	500	500	1,000	(500)
State Relief Association Aid	3,500	3,500	9,663	(6,163)
Public Works:				
Salaries	18,000	18,000	14,708	3,292
Payroll Taxes	2,700	2,700	2,228	472
Shop Supplies	1,250	1,250	1,876	(626)
Shop Utilities	7,660	7,660	7,119	541
Repairs and Maintenance	2,600	2,600	1,566	1,034
Sealcoating & Crack filling	13,000	13,000	3,920	9,080
Vehicle Operating Expenditures	5,900	5,900	3,015	2,885
Miscellaneous	5,582	5,582	2,362	3,220
Capital Outlay	14,000	14,000	16,123	(2,123)
Culture and Recreation:				
Salaries	700	700	97	603
Payroll Taxes	43	43	--	43
Repairs and Maintenance	150	150	134	16
Utilities	600	600	418	182
Summer Recreation Program	550	550	--	550
Supplies/Miscellaneous	1,225	1,225	287	938
Capital Outlay	500	500	1,691	(1,191)
Total Expenditures	<u>249,503</u>	<u>249,503</u>	<u>234,749</u>	<u>14,754</u>
Other Financing Uses				
Transfers to Other Funds	<u>9,500</u>	<u>9,500</u>	<u>9,500</u>	<u>--</u>
Total Expenditures and Other Financing Uses	<u>259,003</u>	<u>259,003</u>	<u>244,249</u>	<u>14,754</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses				
	<u>(5,115)</u>	<u>(5,115)</u>	<u>104,217</u>	<u>109,332</u>
Net Change in Fund Balance	<u>(5,115)</u>	<u>(5,115)</u>	<u>104,217</u>	<u>109,332</u>
<i>Fund Balance at Beginning of Period</i>	<u>133,991</u>	<u>133,991</u>	<u>133,991</u>	<u>--</u>
Fund Balance at End of Period	<u>\$ 128,876</u>	<u>\$ 128,876</u>	<u>\$ 238,208</u>	<u>\$ 109,332</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, 2020

	<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				
State Grants	\$ --	\$ --	\$ 11,053	\$ 11,053
Refunds and Reimbursements	--	--	1,625	1,625
Interest Revenue	300	300	503	203
Miscellaneous	250	250	--	(250)
User charges	15,750	15,750	15,761	11
<i>Total Revenues</i>	16,300	16,300	28,942	12,642
Other Financing Sources				
Transfers from Other Funds	3,500	3,500	9,500	6,000
<i>Total Revenues and Other Financing Sources</i>	19,800	19,800	38,442	18,642
Expenditures				
Salaries	2,500	2,500	1,495	1,005
Payroll Taxes	225	225	153	72
Professional Fees	3,895	3,895	4,147	(252)
Dues/Conferences/Training	850	850	743	107
Supplies	1,625	1,625	5,795	(4,170)
Repairs/Maintenance	4,000	4,000	1,993	2,007
Civil Defense Per Diem	500	500	500	--
Utilities	100	100	86	14
Capital Outlay	2,000	2,000	9,600	(7,600)
<i>Total Expenditures</i>	15,695	15,695	24,512	(8,817)
Other Financing Uses				
Transfers to Other Funds	6,000	6,000	--	6,000
<i>Total Expenditures and Other Financing Uses</i>	21,695	21,695	24,512	(2,817)
<i>Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses</i>	(1,895)	(1,895)	13,930	15,825
<i>Net Change in Fund Balance</i>	(1,895)	(1,895)	13,930	15,825
<i>Fund Balance at Beginning of Period</i>	146,704	146,704	146,704	--
<i>Fund Balance at End of Period</i>	\$ 144,809	\$ 144,809	\$ 160,634	\$ 15,825

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

CITY OF MILROY
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2020

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, 2020

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, 2020

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Governmental fund financial statements (i.e., balance sheet and statement of revenues, expenditures and changes in fund balances) are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Revenues subject to accrual are property taxes, interest on investments, and intergovernmental revenues. Property taxes are recorded as revenues in the fiscal year in which they are levied, provided they are collected in the current period or within sixty days thereafter. Interest on invested funds is recognized when earned. Intergovernmental revenues that are reimbursements for specific expenditures are recognized when all eligibility requirements are met. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

The funds of the financial reporting entity are described below:

Governmental Funds:

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

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

CITY OF MILROY
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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 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.

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.

CITY OF MILROY
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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, 2020

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, 2020

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, 2020

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, 2020

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, 2020

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, 2020, the unassigned fund balance of the General Fund was 58% 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, 2020

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, 2020

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, 2020

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.

Encumbrances

The City does not utilize encumbrance accounting.

B. FUND BALANCE CLASSIFICATION

At December 31, 2020, a summary of the governmental fund balance classifications are as follows:

	General Fund	Fire Fund	Other Governmental Funds	Totals
Nonspendable:				
Prepaid items	\$6,760	\$0	\$0	\$6,760
Committed to:				
Capital Acquisition	9,144	160,634	1,556	171,334
Sealcoating/Crack filling	78,905	0	0	78,905
Assigned:				
Fitness Center	0	0	0	0
Economic Development	0	0	39,149	39,149
Unassigned	143,399	0	0	143,399
Total Fund Balances	\$238,208	\$160,634	\$40,705	\$439,547

C. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

The following fund had excess expenditures over appropriations as of December 31, 2020:

Fire Fund \$8,817

D. DEFICIT FUND BALANCES

There were no funds with a deficit fund balances as of December 31, 2020.

CITY OF MILROY
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2020

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, 2020

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 \$684,283 at December 31, 2020, 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, 2020 was \$678,997.

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, 2020

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, 2020

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, 2020 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, 2020 the City had no investments.

B. ACCOUNTS RECEIVABLE

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

Accounts receivable of the governmental activities consist almost entirely of delinquent taxes and special assessments. The balance as of December 31, 2020 is \$9809 and \$0, respectively. Delinquent taxes and special assessments have been offset by deferred inflows of resources for delinquent taxes and special assessments not received within 60 days after year-end in the governmental fund financial statements. The deferred inflow amount as of December 31, 2020 is \$5,949.

CITY OF MILROY
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 3. DETAIL NOTES ON ALL FUNDS (Continued)

C. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2020 is as follows:

	Balance 1/1/2020	Additions	Deletions	Balance 12/31/2020
Governmental Activities:				
Capital Assets Not Being Depreciated:				
Land	\$27,987	\$0	\$0	\$27,987
Total Capital Assets Not Being Depreciated	<u>27,987</u>	<u>0</u>	<u>0</u>	<u>27,987</u>
Capital Assets Being Depreciated:				
Buildings and Improvements	392,955	12,039	7,748	397,246
Machinery and Equipment	784,339	31,814	12,985	803,168
Total Capital Assets Being Depreciated	<u>1,177,294</u>	<u>43,853</u>	<u>20,733</u>	<u>1,200,414</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	207,158	14,923	5,424	216,657
Machinery and Equipment	579,576	40,221	11,687	608,110
Total Accumulated Depreciation	<u>786,734</u>	<u>55,144</u>	<u>17,110</u>	<u>824,768</u>
Total Capital Assets Being Depreciated, Net	<u>390,560</u>			<u>375,646</u>
Governmental Activity Capital Assets, Net	<u>\$418,547</u>			<u>\$403,633</u>
	Balance 1/1/2020	Additions	Deletions	Balance 12/31/2020
Business-Type Activities:				
Capital Assets Being Depreciated:				
Equipment and Improvements	\$630,447	\$15,920	\$0	\$646,367
Total Capital Assets Being Depreciated	<u>630,447</u>	<u>15,920</u>	<u>0</u>	<u>646,367</u>
Less Accumulated Depreciation for:				
Equipment and Improvements	312,257	36,863	0	349,120
Total Accumulated Depreciation	<u>312,257</u>	<u>36,863</u>	<u>0</u>	<u>349,120</u>
Total Capital Assets Being Depreciated, Net	<u>318,190</u>			<u>297,247</u>
Business-Type Activity Capital Assets, Net	<u>\$318,190</u>			<u>\$297,247</u>

Depreciation Expense was charged to functions/programs as follows:

Governmental Activities:		Business-Type Activities:	
General Government	\$2,926	Water	\$31,316
Public Safety	13,774	Garbage	0
Street and Highways	24,059	Sewer	<u>5,547</u>
Culture & Recreation	4,965	Total Depreciation Expense-	
Depreciation-Unallocated	<u>9,421</u>	Business-Type Activities	<u>\$36,863</u>
Total Depreciation Expense-			
Governmental Activities	<u>\$55,144</u>		

CITY OF MILROY
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2020

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, 2020:

<u>Issuance</u>	<u>Original Issuance</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Debt Outstanding</u>
Business Type Activities:				
GO Utility Revenue Bond	\$451,000	02/01/30	2.95%	<u>\$185,000</u>
Total Outstanding Long-term Debt				<u><u>\$185,000</u></u>

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 2020 was \$5,871.

Minimum Debt Payments

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

Revenue Bonds		
Business-Type Activities	<u>Principal</u>	<u>Interest</u>
2021	29,000	5,030
2022	30,000	4,160
2023	31,000	3,260
2024	32,000	2,330
2025	33,000	1,372
2026	30,000	443
Total	<u><u>185,000</u></u>	<u><u>16,595</u></u>

CITY OF MILROY
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 3. DETAIL NOTES ON ALL FUNDS (Continued)

E. LONG-TERM LIABILITIES (Continued)

Changes in Long-Term Liabilities

	Balance <u>12/31/19</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>12/31/20</u>	Due in <u>One Year</u>
Governmental Activities:					
Accrued Leave	\$3,478	\$10,007	\$7,741	\$5,744	\$0
Total Governmental Activities	3,478	10,007	7,741	5,744	0
Business-Type Activities:					
GO Utility Revenue Bond	213,000		28,000	185,000	29,000
Accrued Leave	752	4,267	3,943	1,076	0
Total Business-Type Activities	213,752	4,267	31,943	186,076	29,000
	<u>217,230</u>	<u>14,274</u>	<u>39,684</u>	<u>191,820</u>	<u>29,000</u>

F. INTERFUND TRANSACTIONS

Inter-fund Transfers

Transfers between funds of the primary government for the year ended December 31, 2020 were as follows:

<u>From</u>	<u>To</u>	<u>Purpose</u>	<u>Amount</u>
General	Fire	Operations	\$3,500
General	Fire	Truck Fund Contribution	\$6,000
Sewer	Water	Debt Payment	\$15,000

Inter-fund Balances

At December 31, 2020, there were no inter-fund balances.

CITY OF MILROY
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2020

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, 2020, 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.

In March 2020, the World Health Organization (“WHO”) declared the coronavirus (COVID 19), a global pandemic and public health emergency. The WHO has recommended containment and mitigation measures worldwide and domestically, self-isolation and shelter-in-place requirements have been or are being put in place. At this point, the City cannot reasonably estimate the length or severity of this pandemic, or the extent to which this disruption may impact the City’s financial statements and future results of operations. The City will continue to monitor and evaluate the nature and extent of the impact on our ongoing activities and the potential effect on future contributions or funding and expenses, financial condition and liquidity.

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.

CITY OF MILROY
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 4. OTHER INFORMATION

B. COMMITMENTS AND CONTINGENCIES (Continued)

Litigation

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

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

C. FEDERAL AIDS – SINGLE AUDIT ACT

The City expended less than \$750,000 of federal financial assistance and is exempt from 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.

E. NEW ACCOUNTING STANDARD

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606), as amended by subsequent ASUs (collectively, ASC 606) which amends the existing standards for revenue recognition and establishes principles for recognizing revenue upon the transfer of promised goods or services to customers based on expected consideration to be received in exchange for those goods and services. The Organization adopted ASU 2014-09 effective January 1, 2020 using the modified retrospective transition method. The adoption of ASU 2014-09 did not materially impact the timing and measurement of revenue recognition. As a result, the Organization did not recognize a cumulative effect adjustment to the opening balance of net assets.

CITY OF MILROY
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2020

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 1. Beginning in 2019, the postretirement increase is equal to 50 percent of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1.0 percent and a maximum of 1.5 percent. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase. For recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a reduced prorated increase.

CITY OF MILROY
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2020

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

B. BENEFITS PROVIDED (Continued)

General Employees Plan Benefits (Continued)

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

C. CONTRIBUTIONS

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

General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.5 percent of their annual covered salary in fiscal year 2020; 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, 2020, 2019, and 2018 were \$7,059, \$7,044 and \$7,244, 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, 2020, the City reported a liability of \$83,936 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 \$2,511. The net pension liability was measured as of June 30, 2020, 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, 2019, through June 30, 2020, relative to the total employer contributions received from all of PERA’s participating employers. At June 30, 2019, the City’s proportion was 0.0014% which was an increase of 0.0001% from its proportion measured as of June 30, 2019.

Entity’s proportionate share of the net pension liability	\$83,936
State of Minnesota’s proportionate share of the net pension liability associated with the City	<u>2,511</u>
Total	<u>86,447</u>

CITY OF MILROY
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2020

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

D. PENSION COSTS (Continued)

For the year ended December 31, 2020, the City recognized pension expense of \$7,216 for its proportionate share of General Employee Fund’s pension expense. In addition, the City recognized an additional \$219 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, 2020, 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	\$ 713	\$ 318
Changes in Actuarial Assumptions	-	3,052
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	1,693	-
Changes in Proportion	5,743	2,776
Employer Contributions Subsequent to the Measurement Date	3,547	-
Totals	<u>\$ 11,696</u>	<u>\$ 6,146</u>

\$3,547 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, 2021. 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>
2021	(\$2,902)
2022	(\$89)
2023	\$2,969
2024	\$2,028

CITY OF MILROY
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2020

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

E. ACTUARIAL ASSUMPTIONS

The total pension liability in the June 30, 2020 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50% per year
Salary Growth	3.25% per year
Investment Rate of Return	7.50%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants for all plans were based on RP 2014 tables for males or females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases after retirement for retirees are assumed to be 1.25% per year for the General Employees Plan.

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

The following changes in actuarial assumptions and plan provisions occurred in 2020:

General Employees Fund

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.

CITY OF MILROY
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2020

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

Changes in Actuarial Assumptions (continued):

- 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.

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.

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	35.5%	5.10%
Private Markets	25.0%	5.90%
Fixed Income	20.0%	0.75%
International Equity	17.5%	5.30%
Cash Equivalents	<u>2.0%</u>	0.00%
Total	100%	

CITY OF MILROY
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2020

F. DISCOUNT RATE

The discount rate used to measure the total pension liability in 2020 was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at the rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Fund was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

G. 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 (6.5%)	Current Discount Rate (7.5%)	1% Increase in Discount Rate (8.5%)
City’s proportionate share of the General Employees Fund net pension liability:	\$134,521	\$83,936	\$42,208

H. 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							
6/30/20	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, 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, 2020

NOTE 1. DEFINED BENEFIT PENSION PLANS – STATEWIDE

General Employees Fund

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.

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.

CITY OF MILROY
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2020

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.

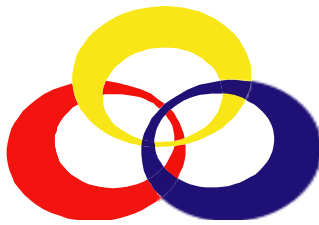
OTHER SUPPLEMENTARY INFORMATION

**City of Milroy
Combining Balance Sheet
Nonmajor Governmental Funds
December 31, 2020**

	<u>Special Revenue</u>		<u>Total Nonmajor Governmental Funds</u>
	<u>Economic Development Authority</u>	<u>Fitness Center</u>	
ASSETS			
Cash and Cash Equivalents	\$ 38,913	\$ 3,149	\$ 42,062
<i>Total Assets</i>	38,913	3,149	42,062
DEFERRED OUTFLOWS OF RESOURCES			
Aggregated deferred outflows	--	--	--
<i>Total Assets and Deferred Outflows of Resources</i>	<u>\$ 38,913</u>	<u>\$ 3,149</u>	<u>\$ 42,062</u>
LIABILITIES			
Accounts Payable	\$ 117	\$ 40	\$ 157
Deposits	1,200	--	1,200
<i>Total Liabilities</i>	<u>1,317</u>	<u>40</u>	<u>1,357</u>
DEFERRED INFLOWS OF RESOURCES			
Aggregated deferred inflows	--	--	--
<i>Total Liabilities and Deferred Inflows of Resources</i>	<u>1,317</u>	<u>40</u>	<u>1,357</u>
FUND BALANCE			
Committed	--	1,556	1,556
Assigned	37,596	1,553	39,149
Unassigned	--	--	--
<i>Total Fund Balance</i>	<u>37,596</u>	<u>3,109</u>	<u>40,705</u>
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balance</i>	<u>\$ 38,913</u>	<u>\$ 3,149</u>	<u>\$ 42,062</u>

City of Milroy
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance
Nonmajor Governmental Funds
For the Year Ended December 31, 2020

	<u>Special Revenue</u>		<u>Total Nonmajor Governmental Funds</u>
	<u>Economic Development Authority</u>	<u>Fitness Center</u>	
Revenues			
Grants	\$ --	\$ 1,192	\$ 1,192
Charges for Services	7,795	3,696	11,491
<i>Total Revenues</i>	<u>7,795</u>	<u>4,888</u>	<u>12,683</u>
Expenditures			
Economic Development	3,122	--	3,122
Fitness Center	--	5,375	5,375
Capital Outlay	--	10,839	10,839
<i>Total Expenditures</i>	<u>3,122</u>	<u>16,214</u>	<u>19,336</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>4,673</u>	<u>(11,326)</u>	<u>(6,653)</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>	4,673	(11,326)	(6,653)
<i>Fund Balance at Beginning of Period</i>	<u>32,923</u>	<u>14,435</u>	<u>47,358</u>
<i>Fund Balance at End of Period</i>	<u>\$ 37,596</u>	<u>\$ 3,109</u>	<u>\$ 40,705</u>



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, 2020, 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 22, 2021.

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 financials 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 a deficiency in internal control over financial reporting that we consider to be a material weakness.

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 deficiency described in the accompanying Schedule of Prior and Current Findings and Responses, as item 2020-001, to be a material weakness.

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*.

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.

Minnesota Legal Compliance

The *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, claims and disbursements, public indebtedness, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for tax increment financing because this provision does not apply to the City of Milroy, Minnesota.

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 *Minnesota Legal Compliance Audit Guide for Cities*. 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.

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
Certified Public Accountants

March 22, 2021

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**CITY OF MILROY
SCHEDULE OF PRIOR AND CURRENT
FINDINGS AND RESPONSES
DECEMBER 31, 2020**

STATUS OF PRIOR AUDIT FINDINGS

Finding 2019-001: 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 2020-001.

**CITY OF MILROY
SCHEDULE OF PRIOR AND CURRENT
FINDINGS AND RESPONSES
DECEMBER 31, 2020**

CURRENT YEAR FINDINGS

2020-001: The City does not maintain an adequate segregation of duties among its accounting personnel.

Criteria: Internal controls can help the City of Milroy achieve its performance targets and prevent loss of resources. It can help ensure reliable financial reporting and it can help ensure that the City complies with laws and regulations.

Condition: A lack of segregation of duties over revenues and expenditures exists which could result in errors not being found in a timely manner.

Cause: The City has a limited number of employees to perform financial reporting duties.

Effect: This could result in a loss of control over accounting transactions and errors not being found in a timely manner.

Recommendation: Since we acknowledge that it is not economically feasible for the City to hire additional employees, we recommend the City Council take a more active role in their oversight over revenues and expenditures.

Corrective Action Plan:

The following compensating controls are presently in place:

- The City Council reviews and approves all bills
- The City Council and/or other personnel periodically review various expenditure reports for amounts, classifications and comparison to budget.

Council Response:

City will continue to review its procedures to determine if any improvements can be made using the limited personnel available.