



Financial Statements
December 31, 2022

City of Fertile, Minnesota

Elected and Appointed Officials (Unaudited)	1
Independent Auditor’s Report	2
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Position	6
Statement of Activities	7
Fund Financial Statements	
Government Funds	
Balance Sheet - Governmental Funds	8
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	9
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	10
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	11
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget to Actual - General Fund	12
Statement of Revenue, Expenditures and Changes in Fund Balance - Budget to Actual - Airport Fund	13
Statement of Revenue, Expenditures and Changes in Fund Balance - Budget to Actual – Economic Development Fund	14
Proprietary Funds	
Statement of Net Position	15
Statement of Revenues, Expenses and Changes in Net Position	16
Statement of Cash Flows	17
Notes to Financial Statements	19
Required Supplementary Information	
Schedule of Employer’s Proportionate Share of Net Pension Liability and Schedule of Employer’s Contributions	50
Schedule of Changes in Net Pension Liability - Firemen’s Relief Association	54
Schedule of Employer Contributions and Non-Employer Contributing Entities – Firemen’s Relief Association	55
Other Supplementary Information	
Budget to Actual – General Fund	56
Other Reports	
Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	59
Independent Auditor Report on <i>Minnesota Legal Compliance</i>	61
Summary of Audit Findings	62

City of Fertile, Minnesota
Elected and Appointed Officials (Unaudited)
December 31, 2022

<u>Elected</u>	<u>Term Position</u>	<u>Expires</u>
Dan Wilkens	Mayor	12/31/2024
Matthew Massmann	Councilor	12/31/2024
Todd Wise	Councilor	12/31/2026
Amanda Bosman	Councilor	12/31/2024
Mary Kiefert	Councilor	12/31/2026
 <u>Appointed</u>		
Lisa Liden	City Administrator	



Independent Auditor's Report

The Honorable Mayor and
Members of the City Council
City of Fertile, Minnesota

Report on the Audit of the Financial Statements

Opinions

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

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

Basis for Opinions

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

Adoption of New Accounting Standard

As discussed in Note 14 to the financial statements, the City has adopted provisions of Government Accounting Standards Board (GASB) Statement No. 87, *Leases*, for the year ended December 31, 2022. Accordingly, a restatement has been made to the governmental activities net position and airport fund balance as of January 1, 2022. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Schedule of Employer's Proportionate Share of Net Pension Liability and Schedule of Employer's Contributions; Schedule of Changes in Net Pension Liability – Firemen's Relief Association; and Schedule of Employer Contributions and Non-Employer Contributing Entities – Firemen's Relief Association be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the management's discussion and analysis that the accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinions on the basic financial statements are not affected by the missing information.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The budget to actual – general fund is presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the budget to actual – general fund is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated September 22, 2023, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Report on Other Legal and Regulatory Requirements

In accordance with the Legal Compliance Audit Guide prepared by the Office of the State Auditor pursuant to Minn. Stat. §6.65, we have also issued a report dated September 22, 2023, on our consideration of the City's compliance with aspects of the provisions of the *Minnesota Legal Compliance Audit Guide for Cities*. The purpose of that report is to describe the scope of our testing of compliance and the results of that testing, and not directed primarily toward obtaining knowledge of noncompliance. That report is an integral part of procedures performed in accordance with the Office of the State Auditor's *Minnesota Legal Compliance Audit Guide for Cities* in considering the City's compliance with certain regulatory requirements pursuant to Minn. Stat. §6.65.



Fargo, North Dakota
September 22, 2023

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

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 729,806	\$ 214,600	\$ 944,406
Restricted cash	27,910	-	27,910
Investments	324,805	-	324,805
Receivables			
Accounts	8,548	706,472	715,020
Loans	96,265	-	96,265
Property taxes	15,124	-	15,124
Leases	5,214	-	5,214
Advances from (to) other funds	2,074,037	(100,000)	1,974,037
Prepaid expenses	90,000	9,853	99,853
Supplies	-	26,402	26,402
Net pension asset	201,321	-	201,321
Capital assets not being depreciated/amortized	83,655	4,139	87,794
Capital assets, net of accumulated depreciation/amortization	<u>4,846,093</u>	<u>7,426,989</u>	<u>12,273,082</u>
Total assets	<u>8,502,778</u>	<u>8,288,455</u>	<u>16,791,233</u>
Deferred Outflows of Resources			
Pension plans	<u>74,633</u>	<u>956,787</u>	<u>1,031,420</u>
Liabilities			
Accounts payable	37,711	126,205	163,916
Accrued payroll	4,163	105,472	109,635
Due to other fund	70,334	-	70,334
Accrued expenses	10,769	22,360	33,129
Noncurrent liabilities			
Due within one year	157,205	494,590	651,795
Due in more than one year	2,487,920	5,597,178	8,085,098
Due in more than one year, net pension liability	<u>144,145</u>	<u>3,213,949</u>	<u>3,358,094</u>
Total liabilities	<u>2,912,247</u>	<u>9,559,754</u>	<u>12,472,001</u>
Deferred Inflows of Resources			
Lease related	5,214	-	5,214
Pension plans	<u>71,680</u>	<u>184,777</u>	<u>256,457</u>
Total deferred inflows of resources	<u>76,894</u>	<u>184,777</u>	<u>261,671</u>
Net Position (Deficit)			
Net investment in capital assets	2,305,914	1,534,950	3,840,864
Restricted for economic development	259,254	23,705	282,959
Unrestricted	<u>3,023,102</u>	<u>(2,057,944)</u>	<u>965,158</u>
Total net position	<u>\$ 5,588,270</u>	<u>\$ (499,289)</u>	<u>\$ 5,088,981</u>

The accompanying Notes to Financial Statements are an integral part of these statements

City of Fertile, Minnesota
Statement of Activities
Year Ended December 31, 2022

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position Primary Government		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary Government							
Governmental activities							
General government	\$ 466,322	\$ 78,871	\$ -	\$ -	\$ (387,451)	\$ -	\$ (387,451)
Public safety	154,143	115,105	-	-	(39,038)	-	(39,038)
Streets and highways	105,397	7,725	-	-	(97,672)	-	(97,672)
Culture and recreation	45,735	-	-	-	(45,735)	-	(45,735)
Health and welfare	120,182	-	-	-	(120,182)	-	(120,182)
Airport	116,771	13,457	59,222	-	(44,092)	-	(44,092)
Economic development	98,746	1,878	-	-	(96,868)	-	(96,868)
Total governmental activities	<u>1,107,296</u>	<u>217,036</u>	<u>59,222</u>	<u>-</u>	<u>(831,038)</u>	<u>-</u>	<u>(831,038)</u>
Business-type activities							
Water	294,059	271,853	-	-	-	(22,206)	(22,206)
Sewer	95,715	84,084	-	-	-	(11,631)	(11,631)
Nursing Home	6,782,817	6,109,398	109,775	58,171	-	(505,473)	(505,473)
Total business-type activities	<u>7,172,591</u>	<u>6,465,335</u>	<u>109,775</u>	<u>58,171</u>	<u>-</u>	<u>(539,310)</u>	<u>(539,310)</u>
Total Primary Government	<u>\$ 8,279,887</u>	<u>\$ 6,682,371</u>	<u>\$ 168,997</u>	<u>\$ 58,171</u>	<u>(831,038)</u>	<u>(539,310)</u>	<u>(1,370,348)</u>
General revenues							
Property taxes					258,980	-	258,980
Unrestricted state aid					394,133	-	394,133
Unrestricted investment earnings					89,085	-	89,085
Loss on disposal of capital assets					(16,527)	-	(16,527)
Miscellaneous					60,567	-	60,567
Transfers					117,815	(73,119)	44,696
Total general revenues					<u>904,053</u>	<u>(73,119)</u>	<u>830,934</u>
Change in net position					73,015	(612,429)	(539,414)
Net position - beginning of year					<u>5,515,255</u>	<u>113,140</u>	<u>5,628,395</u>
Net position - end of year					<u>\$ 5,588,270</u>	<u>\$ (499,289)</u>	<u>\$ 5,088,981</u>

The accompanying Notes to Financial Statements are an integral part of these statements

City of Fertile, Minnesota
Balance Sheet - Governmental Funds
December 31, 2022

	<u>General</u>	<u>Airport</u>	<u>Economic Development</u>	<u>Total Governmental Funds</u>
Assets				
Cash and cash equivalents	\$ 505,138	\$ -	\$ 224,668	\$ 729,806
Restricted cash	27,910	-	-	27,910
Investments	97,190	-	227,615	324,805
Receivables				
Accounts	8,274	274	-	8,548
Loans	-	-	96,265	96,265
Property taxes	15,124	-	-	15,124
Leases	-	5,214	-	5,214
Advance due from other funds	-	-	2,074,037	2,074,037
Prepaid expenses	90,000	-	-	90,000
Due from other funds	419,863	-	-	419,863
	<u>419,863</u>	<u>-</u>	<u>-</u>	<u>419,863</u>
Total assets	<u>\$ 1,163,499</u>	<u>\$ 5,488</u>	<u>\$ 2,622,585</u>	<u>\$ 3,791,572</u>
Liabilities				
Accounts payable	\$ 35,055	\$ 2,618	\$ 38	\$ 37,711
Accrued payroll	4,163	-	-	4,163
Due to other funds	70,334	226,872	192,991	490,197
	<u>70,334</u>	<u>226,872</u>	<u>192,991</u>	<u>490,197</u>
Total liabilities	<u>109,552</u>	<u>229,490</u>	<u>193,029</u>	<u>532,071</u>
Deferred Inflows of Resources				
Lease related	-	5,214	-	5,214
Unavailable revenue	11,166	-	-	11,166
	<u>11,166</u>	<u>-</u>	<u>-</u>	<u>11,166</u>
Total deferred inflows of resources	<u>11,166</u>	<u>5,214</u>	<u>-</u>	<u>16,380</u>
Fund Balance (Deficit)				
Nonspendable	-	-	2,170,302	2,170,302
Restricted for economic development	-	-	259,254	259,254
Unassigned	1,042,781	(229,216)	-	813,565
	<u>1,042,781</u>	<u>(229,216)</u>	<u>-</u>	<u>813,565</u>
Total fund balance (deficit)	<u>1,042,781</u>	<u>(229,216)</u>	<u>2,429,556</u>	<u>3,243,121</u>
	<u>\$ 1,163,499</u>	<u>\$ 5,488</u>	<u>\$ 2,622,585</u>	<u>\$ 3,791,572</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 1,163,499</u>	<u>\$ 5,488</u>	<u>\$ 2,622,585</u>	<u>\$ 3,791,572</u>

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

Total Fund Balances - Governmental Funds		\$ 3,243,121
Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		4,929,748
Long-term assets from pensions reported in governmental activities are not financial resources and, therefore, are not reported in the funds.		201,321
Interest on long-term debt is not accrued in the governmental funds, but rather is recognized as an expenditure when due.		(10,769)
Deferred outflows and inflows of resources related to pensions and net pension liability are applicable to future periods and, therefore, are not reported in the fund		2,953
Unavailable revenues are not considered available for current financial resources and are therefore deferred in the funds. However, it is properly recognized as revenue in the entity-wide statements.		11,166
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds. In the current period these amounts are:		
General obligation bonds	\$ (2,620,000)	
Leases	(3,834)	
Net pension liability	(144,145)	
Compensated absences	(21,291)	
	(2,789,270)	(2,789,270)
Total Net Position - Governmental Activities		\$ 5,588,270

City of Fertile, Minnesota
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds
Year Ended December 31, 2022

	General	Airport	Economic Development	Total Governmental Funds
Revenues				
Property taxes	\$ 260,403	\$ -	\$ -	\$ 260,403
Special assessments	3,911	-	-	3,911
Licenses and permits	4,493	-	-	4,493
Intergovernmental	394,133	59,222	-	453,355
Charges for services	153,301	16,182	-	169,483
Fines and forfeits	2,540	-	-	2,540
Interest income	-	-	86,973	86,973
Miscellaneous	98,902	-	-	98,902
Total revenues	<u>917,683</u>	<u>75,404</u>	<u>86,973</u>	<u>1,080,060</u>
Expenditures				
Current				
General government	152,633	-	-	152,633
Public safety	107,529	-	-	107,529
Streets and highways	169,771	-	-	169,771
Community center	44,066	-	-	44,066
Waste control	3,327	-	-	3,327
Parks and education	51,693	-	-	51,693
Housing and economic development	3,958	-	-	3,958
Unallocated benefits	110,037	-	-	110,037
Weed and insect control	5,979	-	-	5,979
Supplies and professional services	-	-	1,298	1,298
Airport	-	33,576	-	33,576
Equitable cost-sharing for publicly owned nursing facilities (ECPN)	114,203	-	-	114,203
Miscellaneous	9,811	-	-	9,811
Debt service				
Principal	45,942	-	100,000	145,942
Interest	10,650	-	82,608	93,258
Capital outlay	109,469	690	-	110,159
Total expenditures	<u>939,068</u>	<u>34,266</u>	<u>183,906</u>	<u>1,157,240</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(21,385)	41,138	(96,933)	(77,180)
Transfers in	117,815	-	-	117,815
Net Change in Fund Balance (Deficit)	96,430	41,138	(96,933)	40,635
Fund Balance (Deficit) - Beginning	946,351	(270,354)	2,526,489	3,202,486
Fund Balance (Deficit) - Ending	<u>\$ 1,042,781</u>	<u>\$ (229,216)</u>	<u>\$ 2,429,556</u>	<u>\$ 3,243,121</u>

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

Net Change in Fund Balances - Total Governmental Funds	\$	40,635
<p>Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities the cost of capital assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation expense in the current period.</p>		
		(115,095)
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
		(1,423)
<p>Interest payable is reported in the government wide statement of net position but is not recorded in the governmental funds.</p>		
		625
<p>In the statement of activities the cost of pension benefits earned net of employee contributions is reported as pension expense. In the governmental funds, however, the contributions are reported as expense</p>		
		3,972
<p>In the statement of activities compensated absences are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used.</p>		
		(1,623)
<p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transactions, however, has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items.</p>		
		145,924
Change in Net Position of Governmental Activities	\$	73,015

City of Fertile, Minnesota
Statement of Revenues, Expenditures and Changes in Fund Balance -
Budget to Actual - General Fund
Year Ended December 31, 2022

	Original and Final Budget	Actual Amounts	Variance with Final Budget
Revenues			
Property taxes	\$ 253,000	\$ 260,403	\$ 7,403
Special assessments	-	3,911	3,911
Licenses and permits	3,550	4,493	943
Intergovernmental	387,042	394,133	7,091
Charges for services	86,750	153,301	66,551
Fines and forfeits	1,200	2,540	1,340
Miscellaneous revenues	180,500	98,902	(81,598)
Total revenues	<u>912,042</u>	<u>917,683</u>	<u>5,641</u>
Expenditures			
Current			
General government	117,820	152,633	(34,813)
Public safety	99,735	107,529	(7,794)
Streets and highways	231,897	169,771	62,126
Community center	34,700	44,066	(9,366)
Waste control	2,100	3,327	(1,227)
Parks and education	35,650	51,693	(16,043)
Housing and economic development	2,800	3,958	(1,158)
Unallocated benefits	167,045	110,037	57,008
Weed and insect control	8,400	5,979	2,421
Miscellaneous	4,800	9,811	(5,011)
Equitable cost-sharing for publicly owned nursing facilities (ECPN)	95,000	114,203	(19,203)
Debt service			
Principal	-	45,942	(45,942)
Interest	-	10,650	(10,650)
Capital outlay			
Public safety	2,000	-	2,000
Streets and highways	85,000	105,542	(20,542)
Culture and recreation	1,000	3,927	(2,927)
Total expenditures	<u>887,947</u>	<u>939,068</u>	<u>(51,121)</u>
Excess of Revenues Over Expenditures	24,095	(21,385)	(45,480)
Other Financing Sources			
Transfers In	-	117,815	117,815
Net Change in Fund Balance	<u>\$ 24,095</u>	96,430	<u>\$ 72,335</u>
Fund Balance - Beginning		<u>946,351</u>	
Fund Balance - Ending		<u>\$ 1,042,781</u>	

The accompanying Notes to Financial Statements are an integral part of these statements

City of Fertile, Minnesota
Statement of Revenue, Expenditures and Changes in Fund Balance -
Budget to Actual - Airport Fund
Year Ended December 31, 2022

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
Revenues			
Intergovernmental	\$ 1,558,950	\$ 59,222	\$ (1,499,728)
Charges for services	5,350	16,182	10,832
	<u>1,564,300</u>	<u>75,404</u>	<u>(1,488,896)</u>
Expenditures			
Salaries and benefits	14,683	14,683	-
Merchandise for resale, fuel	2,500	14,847	(12,347)
Utilities	2,950	2,751	199
Site maintenance	500	213	287
Miscellaneous	400	195	205
Insurance liability	925	887	38
Capital outlay	1,642,500	690	1,641,810
	<u>1,664,458</u>	<u>34,266</u>	<u>1,630,192</u>
Net Change in Fund Deficit	<u>\$ (100,158)</u>	41,138	<u>\$ 141,296</u>
Fund Deficit - Beginning		<u>(270,354)</u>	
Fund Deficit - Ending		<u>\$ (229,216)</u>	

City of Fertile, Minnesota
Statement of Revenue, Expenditures and Changes in Fund Balance -
Budget to Actual – Economic Development Fund
Year Ended December 31, 2022

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
Revenues			
Interest income	\$ 2,400	\$ 86,973	\$ 84,573
Expenditures			
Supplies and professional services	-	1,298	(1,298)
Debt Service			
Principal	100,000	100,000	-
Interest	82,613	82,608	5
Total expenditures	<u>182,613</u>	<u>183,906</u>	<u>(1,293)</u>
Net Change in Fund Deficit	<u>\$ (180,213)</u>	(96,933)	<u>\$ 83,280</u>
Fund Deficit - Beginning		<u>2,526,489</u>	
Fund Deficit - Ending		<u>\$ 2,429,556</u>	

City of Fertile, Minnesota
Statement of Net Position
Proprietary Funds
December 31, 2022

	Water	Sewer	Nursing Home	Total Proprietary Funds
Assets				
Current assets				
Cash and cash equivalents	\$ 98,006	\$ -	\$ 116,594	\$ 214,600
Accounts receivable, net	31,601	12,266	662,605	706,472
Prepaid expenses	-	-	9,853	9,853
Supplies	-	-	26,402	26,402
Due from other funds	391,862	-	-	391,862
Total current assets	521,469	12,266	815,454	1,349,189
Noncurrent Assets				
Long term advance to other funds	-	-	-	-
Capital Assets				
Land	-	-	4,139	4,139
Treatment plant	512,787	2,253,957	-	2,766,744
Collection and distribution system	4,178,601	-	-	4,178,601
Land improvements	-	-	130,976	130,976
Buildings and improvements	-	-	6,857,189	6,857,189
Equipment	1,354	1,354	1,026,473	1,029,181
Accumulated depreciation	(1,639,070)	(1,161,846)	(4,734,786)	(7,535,702)
Net capital assets	3,053,672	1,093,465	3,283,991	7,431,128
Total assets	3,575,141	1,105,731	4,099,445	8,780,317
Deferred Outflows of Resources				
Pension Plans	18,528	7,411	930,848	956,787
Liabilities				
Current liabilities				
Accounts payable	\$ 7,999	\$ 1,614	\$ 116,592	\$ 126,205
Accrued payroll	-	-	105,472	105,472
Due to other funds	-	391,862	-	391,862
Accrued expenses	14,168	-	8,192	22,360
Current portion of advance from other funds	-	-	100,000	100,000
Current portion of long-term debt	149,000	-	345,590	494,590
Total current liabilities	171,167	393,476	675,846	1,240,489
Noncurrent Liabilities				
Long-term debt	2,294,785	10,288	3,292,105	5,597,178
Net pension liability	55,440	22,176	3,136,333	3,213,949
Total noncurrent liabilities	2,350,225	32,464	6,428,438	8,811,127
Total liabilities	2,521,392	425,940	7,104,284	10,051,616
Deferred Inflows of Resources				
Pension Plans	778	311	183,688	184,777
Net Position (Deficit)				
Net investment in capital assets	609,887	1,083,177	(158,114)	1,534,950
Restricted- expendable	-	-	23,705	23,705
Unrestricted	461,612	(396,286)	(2,123,270)	(2,057,944)
Total net position (deficit)	\$ 1,071,499	\$ 686,891	\$ (2,257,679)	\$ (499,289)

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

	<u>Water</u>	<u>Sewer</u>	<u>Nursing Home</u>	<u>Total Proprietary Funds</u>
Operating Revenues				
Utility collections	\$ 262,704	\$ 84,084	\$ -	\$ 346,788
Net resident service revenue	-	-	6,037,456	6,037,456
Other revenue	9,149	-	71,942	81,091
Total operating revenues	<u>271,853</u>	<u>84,084</u>	<u>6,109,398</u>	<u>6,465,335</u>
Operating Expenses				
Salaries and benefits	93,006	34,535	1,220,724	1,348,265
Nursing and dietary	-	-	3,437,343	3,437,343
Electricity and fuel	7,890	2,424	-	10,314
Maintenance and supplies	23,053	6,274	1,592,942	1,622,269
Insurance	3,894	-	-	3,894
Professional fees	1,650	-	45,917	47,567
Depreciation	124,160	51,489	239,136	414,785
Surcharge	-	-	118,230	118,230
Miscellaneous	6,804	993	-	7,797
Total operating expenses	<u>260,457</u>	<u>95,715</u>	<u>6,654,292</u>	<u>7,010,464</u>
Operating income (loss)	<u>11,396</u>	<u>(11,631)</u>	<u>(544,894)</u>	<u>(545,129)</u>
Nonoperating Revenues (Expenses)				
Provider relief fund income	-	-	109,775	109,775
Interest	(33,602)	-	(128,525)	(162,127)
Total nonoperating revenues (expenses)	<u>(33,602)</u>	<u>-</u>	<u>(18,750)</u>	<u>(52,352)</u>
Income (Loss) before Transfers and Capital Contributions	<u>(22,206)</u>	<u>(11,631)</u>	<u>(563,644)</u>	<u>(597,481)</u>
Transfers and Capital Contributions				
Transfers out	-	-	(73,119)	(73,119)
Capital contributions	-	-	58,171	58,171
Total transfers and capital contributions	<u>-</u>	<u>-</u>	<u>(14,948)</u>	<u>(14,948)</u>
Change in Net Position (Deficit)	<u>(22,206)</u>	<u>(11,631)</u>	<u>(578,592)</u>	<u>(612,429)</u>
Total Net Position (Deficit) - Beginning	<u>1,093,705</u>	<u>698,522</u>	<u>(1,679,087)</u>	<u>113,140</u>
Total Net Position (Deficit) - Ending	<u>\$ 1,071,499</u>	<u>\$ 686,891</u>	<u>\$ (2,257,679)</u>	<u>\$ (499,289)</u>

City of Fertile, Minnesota
Statement of Cash Flows
Proprietary Funds
Year Ended December 31, 2022

	Water	Sewer	Nursing Home	Total Proprietary Funds
Operating Activities				
Receipts from customers	\$ 270,389	\$ 81,239	\$ 5,895,779	\$ 6,247,407
Payments to suppliers	(44,819)	7,840	(2,131,186)	(2,168,165)
Payments to employees	(89,229)	(41,824)	(3,974,491)	(4,105,544)
Other receipts	9,149	-	71,942	81,091
	<u>145,490</u>	<u>47,255</u>	<u>(137,956)</u>	<u>54,789</u>
Noncapital Financing Activities				
Payments from (to) interfund activity	47,255	(47,255)	-	-
Contributions and grants received	-	-	109,775	109,775
	<u>47,255</u>	<u>(47,255)</u>	<u>109,775</u>	<u>109,775</u>
Capital and Related Financing Activities				
Purchase of capital assets	-	-	(15,066)	(15,066)
Capital grants received	-	-	58,171	58,171
Principal payments on debt	(138,122)	-	(50,000)	(188,122)
Interfund transfers	-	-	(73,119)	(73,119)
Payments on interfund advances	-	-	(130,555)	(130,555)
Interest paid on debt	(33,602)	-	(128,669)	(162,271)
	<u>(171,724)</u>	<u>-</u>	<u>(339,238)</u>	<u>(510,962)</u>
Investing Activity				
Interest income	-	-	145	145
	<u>21,021</u>	<u>-</u>	<u>(367,274)</u>	<u>(346,253)</u>
Net Change in Cash and Cash Equivalents	21,021	-	(367,274)	(346,253)
Cash and Cash Equivalents, Beginning of Year	76,985	-	483,868	560,853
Cash and Cash Equivalents, End of Year	<u>\$ 98,006</u>	<u>\$ -</u>	<u>\$ 116,594</u>	<u>\$ 214,600</u>

City of Fertile, Minnesota
Statement of Cash Flows
Proprietary Funds
Year Ended December 31, 2022

	<u>Water</u>	<u>Sewer</u>	<u>Nursing Home</u>	<u>Total Proprietary Funds</u>
Reconciliation of Operating Income (Loss) to Net Cash from (Used for) Operating Activities				
Operating income (loss)	\$ 11,396	\$ (11,631)	\$ (544,894)	\$ (545,129)
Adjustments to Reconcile Operating Income (Loss) to Net Cash from (Used for) Operating Activities				
Depreciation	124,160	51,489	239,136	414,785
Change in Assets and Liabilities				
Accounts receivable	7,685	(2,845)	(141,677)	(136,837)
Supplies	-	-	(3,610)	(3,610)
Prepaid expenses	-	-	18,875	18,875
Accrued expenses	(1,555)	-	(3,250)	(4,805)
Accounts payable	3,778	1,431	64,399	69,608
Compensated absences	(3,777)	7,289	-	3,512
Net pension liability and related deferred inflows and outflows of resources	3,803	1,522	233,065	238,390
Net cash from (used for) operating activities	<u>\$ 145,490</u>	<u>\$ 47,255</u>	<u>\$ (137,956)</u>	<u>\$ 54,789</u>

Note 1 - Summary of Significant Accounting Policies

The City of Fertile, Minnesota was incorporated in 1887 and operates under a mayor-council form of government.

The basic financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governments. The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles, which are primarily set forth in the GASB's Codification of Governmental Accounting and Financial Reporting Standards (GASB Codification). The City significant accounting policies are described below:

Reporting Entity

The City's financial statements include all funds for which the City is financially accountable.

The City is a primary government because it is a special-purpose government that has a separately elected governing body, is legally separate, and is fiscally independent of other state or local governments. Additionally, the City is not included in any other governmental reporting entity.

Component units are legally separate organizations for which elected officials of the primary government are financially accountable. The City is financially accountable if it appoints a voting majority of the organization's governing body and is either:

1. able to impose its will on that organization or
2. there is potential for the organization to provide specific financial benefits to or impose financial burdens on the City. The City may be financially accountable if an organization is fiscally dependent on the City.

The Fair Meadow Nursing Home is being reported as a component unit of the reporting entity because the City Council is able to impose its will on the Nursing Home. The financial information reported for this component unit is for the fiscal year ending September 30, 2022. The activity of the nursing home is being reported as a blended component unit within the activities of the primary government. Separate audited financial statements for the year ended September 30, 2022, are available from the nursing home.

Government-Wide and Fund Financial Statements

The goal of government-wide financial statements is to present a broad overview of government's finances. The basic statements that form the government-wide financial statements are the statement of net position and the statement of activities. These two statements report information on all the non-fiduciary activities of the government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are normally financed through taxes and intergovernmental revenues, are reported separately from business-type activities, which are normally financed through user fees and charges for goods or services.

The statement of activities reports gross direct expenses by function reduced by program revenues. This results in a measurement of net revenue or expense for each of the government's activities. Direct expenses are those that are clearly identifiable with a specific function. Program revenues are directly associated with the function or business-type activity and include 1) charges for services and 2) operating or capital grants and contributions that are restricted to a particular function. Tax and other items not properly included among program revenues are reported instead as general revenues.

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Taxes, special assessments, intergovernmental revenue, permits, charges for services and investment income associated with the current fiscal period are the major revenues that are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period to the extent they are collected in 60 days. All other revenue items are considered to be measurable and available only when the City receives cash.

The City reports the following major governmental funds:

General Fund – The general fund is the general operating fund of the City. All financial resources of the general government that are not required to be reported in another fund are accounted for in the general fund.

Airport Fund – The airport fund is used to account for revenues and expenditures relating to the general operation of the airport.

Economic Development Fund – The economic development fund is used to account for revenues and expenditures relating to the general operation of the economic development fund.

The City reports the following major proprietary funds:

Water Fund – The City uses this fund to account for the furnishing of water service to residents of the City in these funds. The general property taxes and special assessments levied to retire the bonded indebtedness relating to the construction of the water systems are also accounted for in this fund.

Sewer Fund – The City uses this fund to account for the furnishing of sewer service to residents of the City in these funds. The general property taxes and special assessments levied to retire the bonded indebtedness relating to the construction of the sewer systems are also accounted for in this fund.

Nursing Home – The City uses this fund to account for the operations of the Fair Meadow Nursing Home. The management of the Nursing Home is vested in the Board of Directors who are appointed by the City Council. The Nursing Home operates on a fiscal year end of September 30, 2022.

With respect to proprietary activities the City of Fertile has adopted GASB statement No. 62 “Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements.”

Amounts reported as program revenues include the following: amounts received from those who purchase, use or directly benefit from a program; amounts received from parties outside the City that are restricted to one or more specific programs; and earnings on investments that are legally restricted for a specific program. Revenues that do not meet the previous criteria are reported as general revenues, including all taxes.

Proprietary funds report operating revenues and expenses separately from nonoperating items. Operating revenues and expenses generally result from providing services or 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 costs of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

Other Significant Accounting Policies

Budgets and Budgetary Accounting

The City is required by statutes to adopt an annual budget for its General Fund, Airport Fund, and Economic Development Fund. However, there is no legal restriction on expenditures in excess of appropriations.

An annual budget is adopted for the General Fund, Airport Fund, and Economic Development Fund. Budget appropriations lapse at the end of each year. All budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

Any transfers of budgeted amounts between departments of the General Fund, Airport Fund, Economic Development Fund, transfers between other funds, and any revisions that alter the total expenditures of any department or fund must be approved by the City Council.

The legal level of control is at the fund level. Management is not allowed to change the budget without council approval.

Formal budgetary integration is employed as a management control device during the year for the General Fund, Airport Fund, and Economic Development Fund. Formal budgetary integration is not employed for other governmental funds.

Cash, Cash Equivalents and Investments

The City maintains a cash pool. Interest earned from pooled cash accounts is allocated to each of the funds based on the fund's average balance, while funds that incur a negative balance in pooled cash accounts during the year are charged for interest. Funds with a negative balance as of year-end show such amounts as due to other funds.

Investments for the City as of year-end consisted of certificates of deposit and money market accounts.

For purposes of the statement of cash flows, the City considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Restricted Cash

The City has unspent bond proceeds restricted for the use of improvements to the industrial park. The City also has funds raised by the fire department for the use of a fire truck. The funds are expected to be spent in future years.

Receivables and Credit Policy

The accounts receivable are uncollateralized customer obligation due under normal terms requiring payment within 30 days from the invoice date. After 30 days, a penalty of 10% is added to the outstanding balance. After 45 days, if payment is not received, the service is disconnected.

Resident Receivables

Resident receivables of the nursing home are uncollateralized resident and third-party payor obligations. Payments of resident receivables are allocated to the specific claims identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

The carrying amount of resident receivables is reduced by a valuation allowance that reflects management's estimate of amounts that will not be collected from residents and third-party payors. Management considers historical write off and recovery information in determining the estimated bad debt provision. The estimated uncollectible accounts for 2022 is \$0.

Prepaid Expenses

Certain prepayments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

Supplies

Supplies are stated at lower of cost (first-in, first-out) or net realizable value, and are expensed when used.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at acquisition value at the date of donation.

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

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

Treatment plant	10-35 years
Collection and distribution system	10-35 years
Land improvements	5-20 years
Buildings and improvements	10-35 years
Equipment	5-15 years

Resident Trust Funds

The nursing home acts as custodian for the funds of the residents. These funds are included in cash and accounts payable in these financial statements. Resident trust funds totaled \$838 at September 30, 2022.

Compensated Absences – City

Employees earn vacation at varying rates depending on years of service. Vacation days due an employee must not accrue to more than one and one half times the specified annual accrual rates. Employees also earn sick leave benefits based on a fixed rate depending on years of service. Employees may accumulate unlimited sick leave. Upon termination or retirement, unused sick is not paid to the departing employee. Any amounts received by employees are paid out of the general fund.

Compensated Absences – Nursing Home

Employees earn vacation at varying rates depending on years of service. An employee may not accrue more than 24 vacation days. Employees also earn sick leave benefits based on a fixed rate depending on years of service. Employees may accumulate sick leave up to a specified maximum. The nursing home has a sick leave policy under which employees with at least one year of continuous service will be paid their accumulated sick leave balance upon termination or retirement. Any accumulated leave may be carried over to the next year as provided above or the employee may elect to take all or part of it in pay at the end of the year.

Long-Term Liabilities

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.

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.

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. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments, and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

The Fertile Firemen's Relief Association provides a pension plan to covered members in the fire department, funded by City contributions and state aid. The related net pension liability, deferred outflows/inflows of resources, and pension expense are actuarially determined in accordance with GASB Statement No. 67 and 68 at January 1, 2022 and a roll-forward report was completed for the year ended December 31, 2022.

Deferred Outflows and Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then. The City has two items that qualify for reporting in this category. They are the contributions made to pension plans after the measurement date and prior to the fiscal year-end and changes in the net pension liability not included in pension expense reported in the government-wide statement of net position.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has two type of items that qualifies for reporting in this category. The first is changes in the net pension liability not included in pension expense reported in the government-wide statement of net position are reported as deferred inflows. The second item is deferred amounts related to leases that will be recognized in future years, reported in the government-wide statement of net position.

Property Taxes

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

The county spreads all levies over the assessable property. Such taxes become a lien on January 1 and are recorded as receivables by the City at that date. Revenues are accrued in the year collectible, net of delinquencies.

Property taxes may be paid by taxpayers in two equal installments on May 15 and October 15. The county provides tax settlements to cities and other local governments three times a year, on or before April 15, June 30, and November 30.

Fund Balance

The following classifications describe the relative strength of the spending constraints:

Nonspendable Fund Balance – amounts that are not in nonspendable form (such as inventory) or are required to be maintained intact.

Restricted Fund Balance – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.

Committed Fund Balance – amounts constrained to specific purposes by the City itself, using its highest level of decision-making authority (i.e., City Council). To be reported as committed, amounts cannot be used for any other purpose unless the City takes the same highest-level action to remove or change the constraint.

Assigned Fund Balance – amounts the City intends to use for a specific purpose. Intent can be expressed by the City Council or by an official or body to which the City Council delegates the authority.

Unassigned Fund Balance – amounts that are available for any purpose. Positive amounts are reported only in the general fund.

The City did not adopt a fund balance policy as of December 31, 2022; therefore, there are no committed or assigned fund balances.

Net Position

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

Net Resident Service Revenue

Net resident service revenue of the nursing home is recorded at established billing rates that are determined on a contract-based reimbursement system as prescribed by Minnesota Department of Human Services regulations. The nursing home participates in the Medicare program for which payment for services is made on a prospectively determined per diem rate which varies based on a case-mix adjusted resident classification system.

Grants and Contributions

From time to time, the nursing home receives grants from Polk County and the State of Minnesota as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

Use of Estimates

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

Implementation of GASB Statement No. 87

As of January 1, 2022, the City adopted GASB Statement No. 87, *Leases*. The implementation of this standard establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The standard requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The effect of the implementation of this standard on beginning net position is disclosed in Note 14 and the additional disclosures required by this standard is included in Note 8.

Note 2 - Compliance and Stewardship

Deficit Fund Balance/Net Position

The Airport Fund, a special revenue fund, has a deficit fund balance of \$229,216 at December 31, 2022. The deficit is expected to be eliminated through future revenue or a transfer from the general fund.

The Nursing Home Fund, a proprietary fund, has a deficit net position of \$2,257,679 at September 30, 2022. The deficit is expected to be eliminated through future revenues.

Expenditures in Excess of Appropriation

Budget control for the General Fund is established by the fund’s total appropriations. The General Fund had expenditures exceeding appropriations in the amount of \$51,121 for the year ended December 31, 2022. This over expenditure was covered by revenues in excess of appropriations and available fund balance.

Budget control for the Economic Development Fund is established by the fund’s total appropriations. The Economic Development Fund had expenditures exceeding appropriations in the amount of \$1,293 for the year ended December 31, 2022. This over expenditure was covered by revenues in excess of appropriations and available fund balance.

Note 3 - Net Resident Service Revenue

A summary of resident service revenue and contractual adjustments of the nursing home for the year ended September 30, 2022, is as follows:

Resident service revenue	\$ 6,149,709
Contractual adjustments - Medicare	(112,253)
Provision for bad debts	-
Net resident service revenue	\$ 6,037,456

Note 4 - Deposits and Investments

Deposits

The City maintains cash that is available for use by all funds. Each fund type’s portion of this pool is displayed on the combined balance sheet as “Cash and Cash Equivalents”.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of bank failure, the government’s deposits may not be returned to it. The City does not have a formal policy to further limit exposure to custodial credit risk. 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 protected by insurance, surety bond or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by insurance or bonds (140% in the case of mortgage notes pledged). Minnesota statutes require that securities pledged as collateral be held in safekeeping by the city treasurer or in a financial institution other than that furnishing the collateral.

Interest Rate Risk

The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The City has the recurring fair value measurements as of December 31, 2022: \$206,551 valued using the other observable inputs (Level 2 inputs).

Investments

Statutes authorize the City to invest in obligations of the U.S. Treasury and U.S. agencies, bankers' acceptances, certain repurchase agreements and commercial paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Record.

As of December 31, 2022, the City had the following deposits and investments and maturities:

Type	Fair Value	Investment Maturities (in Years)		
		Not Applicable	<1	1-5
Deposits	\$ 972,316	\$ 972,316	\$ -	\$ -
Money Market Funds	21,356	21,356	-	-
External Investment Pool - 4M Fund	96,898	96,898	-	-
Certificates of Deposit	206,551	-	-	206,551
Total	\$ 1,297,121	\$ 1,090,570	\$ -	\$ 206,551

The 4M Fund is regulated under the guidelines of Minnesota State Statutes Section 118A and investments are managed in accordance with SEC regulations 2A7. The fair value of the position in the 4M Fund is the same value as the pool shares.

The City's Cash and Investment balances are included on the basic financial statements as follows:

Cash and cash equivalents - Statement of Net Position	\$ 944,406
Restricted cash - Statement of Net Position	27,910
Investments - Statement of Net Position	<u>324,805</u>
	<u>\$ 1,297,121</u>

Credit Risk

The City maintains its cash balances in a financial institution located in Fertile. Such balances are insured by the Federal Deposit Insurance Corporation up to a maximum of \$250,000. At December 31, 2022 and 2021, the City had deposits in excess of FDIC-insured limits of \$833,337 and \$744,327.

Custodial Credit Risk

The investment in the 4M Fund is not subject to the credit risk classifications as noted in paragraph 9 of GASB Statement No. 40.

Note 5 - Receivables

Loans Receivable

As of December 31, 2022, all loans receivable were recorded in the Economic Development special revenue fund. Listed below is a description of the various loans receivable that are due to the City as of December 31, 2022.

Economic Development Fund	Balance
Loans made to Fertile business or entities, due with interest rates at 2% with maturity dates that range from 2023 through 2031	\$ 96,265

Note 6 - Transfers and Interfund Activity

The Economic Development Authority entered into a lease with the Fair Meadow Nursing Home in 2015 for costs of the assisted living construction. The lease was set up in order for Fair Meadow Nursing Home to fund future bond payments related to the General Obligation Housing Development Revenue Bonds 2016A and 2016B on which the City is paying. These transactions have been accounted for as an advance to/from other funds. The amount of the lease liability on the Home’s financial statements is \$2,100,445 and does not agree to the advance from amount on the City’s financial statements of \$2,074,037 due to payments of \$26,408 made between the Home’s year-end of September 30, 2022 and the City’s year-end of December 31, 2022.

The Sewer fund has a long term advance from the Water fund in the amount of \$391,862 as a result of negative cash.

During the year ended December 31, 2022 the Nursing Home paid \$73,199 to the City related to the advances from the General fund.

Other interfund payables and receivables are made for various reimbursements of borrowed funds are as follows for 2022:

<u>Due From</u>	<u>General</u>	<u>Water</u>	<u>Nursing Home</u>	<u>Total</u>
Airport	\$ 226,872	\$ -	\$ -	\$ 226,872
General	-	-	70,334	70,334
Economic Development	192,991	-	-	192,991
Sewer	-	391,862	-	391,862
	<u>\$ 419,863</u>	<u>\$ 391,862</u>	<u>\$ 70,334</u>	<u>\$ 882,059</u>

The General Fund interfund payable to the Nursing Home totaling \$70,334 differs from the Nursing Home's interfund receivable of zero due to the Nursing Home fund being reported as of their September 30, 2022 year end within the financial statements.

Note 7 - Capital Assets

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

	<u>Beginning Balance (as restated)</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities				
Capital assets, not being depreciated				
Land	\$ 83,655	\$ -	\$ -	\$ 83,655
Capital assets, being depreciated/amortized				
Buildings	975,664	20,461	-	996,125
Land improvements	2,550,448	-	-	2,550,448
Infrastructure	3,999,897	40,310	-	4,040,207
Equipment and vehicles	555,211	49,009	76,190	528,030
Right-to-use lease assets	4,758	-	-	4,758
Total capital assets being depreciated/amortized	<u>8,085,978</u>	<u>109,780</u>	<u>76,190</u>	<u>8,119,568</u>
Less accumulated depreciation/amortization for				
Buildings	634,274	11,064	-	645,338
Land improvements	37,577	63,762	-	101,339
Infrastructure	2,143,200	85,525	-	2,228,725
Equipment and vehicles	309,739	47,865	59,663	297,941
Right-to-use lease assets	-	132	-	132
Total accumulated depreciation/amortization	<u>3,124,790</u>	<u>208,348</u>	<u>59,663</u>	<u>3,273,475</u>
Total capital assets, being depreciated/amortized, net	<u>4,961,188</u>	<u>(98,568)</u>	<u>16,527</u>	<u>4,846,093</u>
Total capital assets, net	<u>\$ 5,044,843</u>	<u>\$ (98,568)</u>	<u>\$ 16,527</u>	<u>\$ 4,929,748</u>

City of Fertile, Minnesota
Notes to Financial Statements
December 31, 2022

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-Type Activities				
Capital assets not being depreciated				
Land	\$ 4,139	\$ -	\$ -	\$ 4,139
Capital assets being depreciated				
Treatment plant	2,766,744	-	-	2,766,744
Collection and distribution system	4,178,601	-	-	4,178,601
Land improvements	130,976	-	-	130,976
Buildings and improvements	6,848,944	8,245	-	6,857,189
Equipment	1,022,360	6,821	-	1,029,181
Total capital assets being depreciated	<u>14,947,625</u>	<u>15,066</u>	<u>-</u>	<u>14,962,691</u>
Less accumulated depreciation for				
Treatment plant	1,509,812	80,139	-	1,589,951
Collection and distribution system	1,113,068	95,510	-	1,208,578
Land and improvements	114,217	4,388	-	118,605
Buildings and improvements	3,424,756	223,536	-	3,648,292
Equipment	959,063	11,213	-	970,276
Total accumulated depreciation	<u>7,120,916</u>	<u>414,786</u>	<u>-</u>	<u>7,535,702</u>
Total capital assets, being depreciated, net	<u>7,826,709</u>	<u>(399,720)</u>	<u>-</u>	<u>7,426,989</u>
Business-Type Activities capital assets, net	<u>\$ 7,830,848</u>	<u>\$ (399,720)</u>	<u>\$ -</u>	<u>\$ 7,431,128</u>

Depreciation/amortization expense was charged to functions/programs of the governmental activities and funds of the business-type activities as follows:

Governmental Activities	
Airport	\$ 82,506
Public works	<u>125,842</u>
Total depreciation/amortization expense - governmental activities	<u><u>\$ 208,348</u></u>
Business-Type Activities	
Water	\$ 124,160
Sewer	51,489
Nursing home	<u>239,137</u>
Total depreciation expense - business-type activities	<u><u>\$ 414,786</u></u>

Note 8 - Leases

Leases Receivable

During prior years, the City began to lease the haying operations at the airport to third parties. The City receives annual payments for the five-year lease. An initial lease receivable was recorded in the amount of \$7,708 upon implementation of GASB Statement No. 87 at January 1, 2022. The City recognized \$2,494 in lease revenue and \$304 in interest revenue during the year ended December 31, 2022, related to the lease. As of December 31, 2022, the City's receivable for lease payments was \$5,214. Also, the City has a deferred inflow of resources associated with the lease that will be recognized as revenue over the lease term. As of December 31, 2022, the balance of the deferred inflow of resources was \$5,214.

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>
2023	\$ 2,569	\$ 156
2024	2,645	79
	<u>5,214</u>	<u>235</u>
Total	<u>\$ 5,214</u>	<u>\$ 235</u>

Leases Payable

During prior years, the City entered into a lease agreement as lessee for the acquisition and use of office equipment. An initial lease liability was recorded in the amount of \$4,758 upon implementation of GASB Statement No. 87 at January 1, 2022. As of December 31, 2022, the value of the lease liability was \$3,834. The City is required to make principal and interest payments and the lease has an interest rate of 2.14%. Useful life of the equipment is three years. The carrying value of the right-to-use asset as of the end of the current fiscal year was \$4,758 and had accumulated amortization of \$132. During the current year, the City recorded amortization expense of \$132 and interest expense of \$56 related to the lease.

The future principal and interest payments as of December 31, 2022, were as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>
2023	\$ 1,559	\$ 121
2024	1,622	57
2025	653	5
	<u>3,834</u>	<u>183</u>
Total	<u>\$ 3,834</u>	<u>\$ 183</u>

Note 9 - Long-Term Debt

The following is a summary of changes in long-term debt of the City for the year ended December 31, 2022:

	Beginning Balance (as restated)	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
G.O. Revenue bonds	\$ 2,765,000	\$ -	\$ 145,000	\$ 2,620,000	\$ 145,000
Leases	4,758	-	924	3,834	1,559
Compensated absences	19,668	26,675	25,052	21,291	10,646
Total governmental activities	\$ 2,789,426	\$ 26,675	\$ 170,976	\$ 2,645,125	\$ 157,205
Business-Type Activities					
Notes payable	\$ 1,933,187	\$ -	\$ 99,122	\$ 1,834,065	\$ 109,000
G.O. Bonds payable	1,391,660	-	50,000	1,341,660	50,000
G.O. utility revenue notes	645,000	-	39,000	606,000	40,000
Compensated absences	289,826	19,772	-	309,598	295,590
Total business-type activities	\$ 4,259,673	\$ 19,772	\$ 188,122	\$ 4,091,323	\$ 494,590

Compensated absences – This amount consists of vacation and sick leave payable benefits as described in Note 1.

Leases – Leases payable consists of leases as discussed in Note 8. Lease principal and interest payments are made by the general fund.

Legal Debt Margin – Minnesota statutes limit the net bonded indebtedness of the City to 3% of the estimated market value. The legal debt limit as of December 31, 2022, was \$2,036,214.

Long-Term Debt

	<u>Interest Rate</u>	<u>Final Year of Maturity</u>	<u>Authorized and Issued</u>	<u>Outstanding</u>
Governmental Activities				
G.O. Revenue Bonds				
Housing Development	3.0-4.0%	2039	\$ 3,000,000	\$ 2,265,000
Tax Increment	1.0-3.0%	2029	700,000	<u>355,000</u>
				<u><u>\$ 2,620,000</u></u>

General obligation bonds are recorded in the governmental activities in the government-wide statement and are backed by the full faith and credit of the City. Housing Development Bonds above are paid out of the Economic Development fund while payments for the Tax Increment Bonds above are made from the City's General fund.

	<u>Interest Rate</u>	<u>Final Year of Maturity</u>	<u>Authorized and Issued</u>	<u>Outstanding</u>
Business-Type Activities				
2016A Taxable General Obligation Nursing Home Bonds				
	2.0-3.3%	2029	\$ 595,000	\$ 381,660
2016B General Obligation Nursing Home Bonds				
	3.0-4.0%	2042	960,000	960,000
2019A G.O. Utility Revenue Note				
	3.35%	2034	484,000	411,000
2019 PFA Notes Payable				
	1.00%	2038	1,618,697	1,554,000
2020 A G.O. Utility Revenue Note				
	2.10%	2036	213,000	195,000
2020 PFA Notes Payable				
	1.00%	2038	302,623	<u>280,065</u>
				<u><u>\$ 3,781,725</u></u>

During the prior years, the City was authorized to issue \$1,654,575 of notes payable through the Drinking Water State Revolving Fund loan program to finance improvements to the City's water and sewer system, and drew a total of \$1,618,697. The note bears an interest rate of 1.00% and requires semiannual interest payments and annual principal payments commencing February 2020 through August 2038. This note will be repaid through the operating revenues of the water and sewer funds and, if necessary, special assessments levied upon benefiting properties.

During the prior year, the City was authorized to issue \$311,558 of notes payable through the Drinking Water State Revolving Fund loan program to finance improvements to the City’s water and sewer system, and drew a total of \$302,623 on this note. The note bears an interest rate of 1.00% and requires semiannual interest payments and annual principal payments commencing August 2021 through August 2038. This note will be repaid through the operating revenues of the water and sewer funds and, if necessary, special assessments levied upon benefiting properties.

The annual requirements to amortize all bonded debt outstanding as of December 31, 2022, are as follows:

Years Ending December 31,	Government Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2023	\$ 145,000	\$ 89,363	\$ 199,000	\$ 80,165
2024	150,000	85,238	201,000	76,453
2025	155,000	80,663	209,000	72,614
2026	160,000	76,013	211,000	68,516
2027	170,000	71,138	213,000	64,236
2028-2032	740,000	284,188	1,142,000	253,286
2033-2037	755,000	162,000	1,112,000	139,336
2038-2039	345,000	20,800	494,725	44,180
Total	<u>\$ 2,620,000</u>	<u>\$ 869,403</u>	<u>\$ 3,781,725</u>	<u>\$ 798,786</u>

Paycheck Protection Program (PPP) Loan

In 2020, the Home was granted a \$569,455 loan under the Paycheck Protection Program (PPP) administered by a Small Business Administration (SBA) approved partner. The loan was uncollateralized and fully guaranteed by the Federal government. In 2020, the Home had recorded a note payable. There were provisions under the PPP loan program where all or a portion of the loan may be forgiven based on certain criteria like maintaining full time equivalent employees. As of December 31, 2022, the full amount of \$569,455 has been forgiven and is recorded as nonoperating revenue.

Note 10 - Defined Benefit Pension Plans

Qualified employees are covered under a cost-sharing multiple-employer defined benefit pension plan administered by the Public Employees Retirement Association of Minnesota (PERA). Qualified employees are also covered under a single employer defined benefit pension plan of the Fertile Firemen’s Relief Association.

For the year ended December 31, 2022, the City reported its proportionate share of net pension assets, net pension liabilities, deferred outflows of resources, deferred inflows of resources, and pension expense (income) for each of the plans as follows:

	Net Pension Asset	Deferred Outflows of Resources	Net Pension Liability	Deferred Inflows of Resources	Pension Expense (Income)
PERA - General Employees Fund	\$ -	\$ 74,112	\$ 221,761	\$ 3,113	\$ 35,412
Nursing Home PERA - General Employees Fund	-	930,848	3,136,333	183,688	452,629
Fire Relief Association	201,321	26,460	-	69,656	(36,751)
Total all plans	<u>\$ 201,321</u>	<u>\$ 1,031,420</u>	<u>\$ 3,358,094</u>	<u>\$ 256,457</u>	<u>\$ 451,290</u>

Multiple-Employer Defined Benefit Pension Plan – Public Employees Retirement Association of Minnesota

A. Plan Description

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

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

Benefit increases are provided to benefit recipients each January. The postretirement increase is equal to 50 percent of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1 percent and a maximum of 1.5 percent. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase. Recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a reduced prorated increase. For members retiring on January 1, 2024, or later, the increase will be delayed until normal retirement age (age 65 if hired prior to July 1, 1989, or age 66 for individuals hired on or after July 1, 1989). Members retiring under Rule of 90 are exempt from the delay to normal retirement.

C. Contributions

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

Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary and fiscal year 2022 and the City and the Home were required to contribute 7.50 percent for Coordinated Plan members. The City's contributions to the General Employees Fund for the year ended December 31, 2022, were \$15,961. The Home's contributions to the General Employees Fund for the year ended September 30, 2022, were \$222,559. The City and the Home's contributions were equal to the required contributions as set by state statute.

D. Pension Costs

At December 31, 2022, the City reported a liability of \$221,761 for its proportionate share of the General Employees Fund's net pension liability. The City's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the City totaled \$6,542.

The net pension liability was measured as of June 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportionate share of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2021 through June 30, 2022, relative to the total employer contributions received from all of PERA's participating employers. The City's proportionate share was 0.0028% at the end of the measurement period and 0.0027% for the beginning of the period.

City's proportionate share of the net pension liability	\$ 221,761
State of Minnesota's proportionate share of the net pension liability associated with the City	<u>6,542</u>
Total	<u><u>\$ 228,303</u></u>

For the year ended December 31, 2022, the City recognized pension expense of \$35,412 for its proportionate share of the General Employees Plan’s pension expense. In addition, the City recognized an additional \$977 as pension expense for its proportionate share of the State of Minnesota’s contribution of \$16 million to the General Employees Fund.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	\$ 1,852	\$ 2,275
Changes in Actuarial Assumptions	48,450	838
Net Collective Difference Between Projected and Actual Investment Earnings	6,258	-
Changes in Proportion	8,965	-
Contributions Paid to PERA Subsequent to the Measurement Date	8,587	-
Total	\$ 74,112	\$ 3,113

The \$8,587 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2023. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ended June 30,	Pension Expense Amount
2023	\$ 24,645
2024	22,702
2025	(4,991)
2026	20,056

At September 30, 2022, the Nursing Home reported a liability of \$3,136,333 for its proportionate share of the General Employees Fund's net pension liability. The Nursing Home'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 Nursing Home totaled \$92,036.

The net pension liability was measured as of June 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Nursing Home's proportionate share of the net pension liability was based on the Nursing Home's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2021 through June 30, 2022, relative to the total employer contributions received from all of PERA's participating employers. The Nursing Home's proportionate share was 0.0396% at the end of the measurement period and 0.0427% for the beginning of the period.

Home's proportionate share of the net pension liability	\$ 3,136,333
State of Minnesota's proportionate share of the net pension liability associated with the Home	<u>92,036</u>
Total	<u><u>\$ 3,228,369</u></u>

For the year ended September 30, 2022, the Nursing Home recognized pension expense of \$452,629 for its proportionate share of the General Employees Plan's pension expense. In addition, the Nursing Home recognized an additional -\$36,751 as pension expense for its proportionate share of the State of Minnesota's contribution of \$16 million to the General Employees Fund.

At September 30, 2022, the Nursing Home reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	\$ 26,197	\$ 36,005
Changes in Actuarial Assumptions	763,696	13,239
Net Collective Difference Between Projected and Actual Investment Earnings	-	35,156
Changes in Proportion	82,518	99,288
Contributions Paid to PERA Subsequent to the Measurement Date	<u>58,437</u>	<u>-</u>
Total	<u><u>\$ 930,848</u></u>	<u><u>\$ 183,688</u></u>

The \$58,437 reported as deferred outflows of resources related to pensions resulting from Nursing Home contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2022. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ended June 30,	Pension Expense Amount
2023	\$ 295,526
2024	273,879
2025	(164,315)
2026	283,633

The total pension expense for all plans recognized by the City for the year ended December 31, 2022, was \$451,290.

E. Long-Term Expected Return on Investment

The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness on a regular basis of the long-term expected rate of return using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

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

F. Actuarial Methods and Assumptions

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

Inflation in the General Employees Plan is assumed to be 2.25 percent and benefit increases after retirement are assumed to be 1.25 percent. Salary growth assumptions range in annual increments from 10.25 percent after one year of service to 3.0 percent after 27 years of service. Mortality rates for the General Employees Plan are based on the Pub-2010 General Employee Mortality Table. The tables are adjusted slightly to fit PERA's experience.

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

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

General Employees Fund

Changes in Actuarial Assumptions:

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

Changes in Plan Provisions:

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

G. Discount Rate

The discount rate used to measure the total pension liability in 2022 was 6.50 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net positions of the General Employees Fund and the Police and Fire Fund were 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.

H. Pension Liability Sensitivity

The following presents the City and Home’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 and Home’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:

Sensitivity Analysis				
<i>Net Pension Liability at Different Discount Rates</i>				
			City	Nursing Home
1% Lower	5.50%	\$	350,283	\$ 4,954,002
Current Discount Rate	6.50%		221,761	3,136,333
1% Higher	7.50%		116,353	1,645,564

I. Pension Plan Fiduciary Net Position

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

Single Employer Defined Benefit Plan – Fertile Firemen’s Relief Association

A. Plan Description

The Fertile Firemen’s Relief Association is the administrator of a single employer defined benefit pension plan established to provide benefits for members of the Fertile Fire Department per Minnesota State Statutes. The Association issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at City Hall or by calling (218)945-3136.

B. Benefits Provided

Volunteer firefighters of the City are members of the Fertile Firemen’s Relief Association. Full retirement benefits are payable to members who have reached age 50 and have completed 20 years of service. Partial benefits are payable to members who have reached age 50 and have completed 10 years of service. Disability benefits and widow and children's survivor benefits are also payable to members or their beneficiaries based upon requirements set forth in the bylaws. These benefit provisions and all other requirements are consistent with enabling state statutes.

C. Members Covered by Benefit Terms

At December 31, 2022, the following members were covered by the benefit terms:

Inactive members entitled to but not yet receiving benefits	4
Active members	25
	29

D. Contributions

Minnesota Statutes Chapter 424A.092 specifies minimum support rates required on an annual basis. The minimum support rates from the municipality and from State aids are determined as the amount required to meet the normal cost plus amortizing any existing prior service costs over a ten-year period. The City's obligation is the financial requirement for the year less state aids. Any additional payments by the City shall be used to amortize the unfunded liability of the relief association. The Association is comprised of volunteers: therefore, there are no payroll expenditures (i.e., there are no covered payroll percentage calculations). During the year, the City recognized as revenue and as an expenditure an on behalf payment of made by the State of Minnesota for the Relief Association.

E. Net Pension Liability

The City's net pension liability was measured as of **December 31, 2021** and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions - The total pension liability in the **December 31, 2021**, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50 percent
Investment rate of return	5.00 percent
Mortality	The value of the death benefit is similar to the value of the retirement pension. Due to a small sample size and low retirement ages, no pre-retirement mortality is assumed. Post-retirement mortality dies not apply as the benefit structure and form of payment do not reflect lifetime benefits.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These asset class estimates are combined to produce the portfolio long-term expected rate of return by weighting the expected future real rates of return by the current asset allocation percentage (or target allocation, if available) and by adding expected inflation (2.50%). All results are then rounded to the nearest quarter percentage point.

Best-estimates of geometric real and nominal rates of return for each major asset class included in the pension plan's asset allocation as of the measurement date are summarized in the following table:

Asset Class	Allocation at Measurement Date	Long-Term Expected Real Rate of Return
Cash	14.00%	1.80%
Fixed Income	28.00%	2.90%
Equities	58.00%	7.00%

Discount Rate - The discount rate used to measure the total pension liability was 5.0%. Assets were projected using expected benefit payments and expected asset returns. Expected benefit payments by year were discounted using the expected asset return assumption for years in which the assets were sufficient to pay all benefit payments. Any remaining benefit payments after the trust fund is exhausted are discounted at the municipal bond rate. The equivalent single rate is the discount rate.

F. Changes in the Net Pension Liability (Asset)

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances at January 1, 2021, plan year	\$ 340,709	\$ 489,244	\$ (148,535)
Changes from the Prior Year:			
Service Cost	14,375	-	14,375
Interest Cost	15,934	-	15,934
Contributions - State and Local	-	25,700	(25,700)
Projected Investment Return	-	23,172	(23,172)
Gain or Loss	(2,364)	36,384	(38,748)
Benefit Payments	(72,793)	(72,793)	-
Administrative Expense	-	(4,525)	4,525
Net Changes	(44,848)	7,938	(52,786)
Balances at December 31, 2021, plan year	<u>\$ 295,861</u>	<u>\$ 497,182</u>	<u>\$ (201,321)</u>

Sensitivity of the net pension liability to changes in the discount rate: The following presents the net pension liability (asset) of the City, calculated using the discount rate of 5.0%, as well as what the City's net pension liability (asset) would be if it were calculated using a discount rate that is one percentage point lower (4.0%) or one percentage point higher (6.0%) than the current rate:

	1% Decrease in Discount Rate	Discount Rate	1% Increase in Discount Rate
Discount rate	4.00%	5.00%	6.00%
Net Pension Liability (Asset)	\$ (193,871)	\$ (201,321)	\$ (208,668)

Detailed information about the pension plan's fiduciary net position is available in the separately issued relief association financial report.

G. Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended December 31, 2022, the City recognized pension income of . At December 31, 2022, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net Difference Between Projected and Actual Investment Earnings	\$ -	\$ 67,555
Liability Gains	-	2,101
Contributions to the Plan Subsequent to the Measurement Date	<u>26,460</u>	<u>-</u>
	<u>\$ 26,460</u>	<u>\$ 69,656</u>

The \$26,460 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Years Ended December 31,</u>	<u>Pension Expense Amount</u>
2023	\$ (22,713)
2024	(22,711)
2025	(15,644)
2026	(7,539)
2027	(263)
Thereafter	(786)

Note 11 - Concentration of Credit Risk

The nursing home grants credit without collateral to its residents, most of whom are insured under third-party payor agreements. The mix of receivables from third-party payors and residents at September 30, 2022, was as follows:

Medicaid	66%
Residents	17%
Medicare	17%
	100%
	100%

Note 12 - Contingencies

Malpractice Insurance

The nursing home has malpractice insurance coverage to provide protection for professional liability losses on a claims-made basis subject to a limit of \$1 million per claim and an annual aggregate limit of \$3 million. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, would be uninsured.

Litigations, Claims, and Disputes

The nursing home is subject to the usual contingencies in the normal course of operations relating to the performance of its tasks under its various programs. In the opinion of management, the ultimate settlement of litigation, claims, and disputes in process will not be material to the financial position of the nursing home.

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations, specifically those relating to the Medicare and Medicaid programs, can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Federal government activity has increased with respect to investigations and allegations concerning possible violations by health care providers of regulations, which could result in the imposition of significant fines and penalties, as well as significant repayments of previously, billed and collected revenues from patient services. Management believes that the nursing home is in substantial compliance with current laws and regulations.

The City generally follows the practice of recording liabilities resulting from claims and legal actions only when they become fixed or determinable in amount. There were no significant legal actions outstanding as of December 31, 2022.

Note 13 - Risk Management

The City is exposed to various risks of loss related to torts; theft or damage, and destruction of assets; errors and omissions; injuries to employees; and disasters. The City participates in a group workers' compensation plan with the League of Minnesota Cities Insurance Trust (LMCIT), which is a public entity risk pool currently operating as a common risk management and insurance program for member Minnesota cities. The plan is administered by Berkley Administrators.

The workers' compensation plan is self-sustaining based on the premiums charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. The City has entered into a regular premium plan with LMCIT. The City pays its premium annually based on current year budgeted salaries with premium adjustment after annual actual salaries are determined. All charges are distributed to each City department based upon salary and workers' compensation class code. LMCIT is responsible for Workers' Compensation Reinsurance Association premiums and for the general administrative and claim expenses.

The City continues to carry commercial insurance for employee health, standard liability, property, and automotive insurance. Settlements have not exceeded coverage for each of the three fiscal years. There has been no substantial change in coverage from the prior year.

Note 14 - Adoption of New Standard

As of January 1, 2022, the City adopted GASB Statement No. 87, *Leases*. The implementation of this standard establishes a single model for lease accounting based on the foundational principal that leases are financings of the right to use an underlying asset. The Statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases. Beginning net position and airport fund balance was restated to retroactively adopt the provisions of GASB Statement No. 87 as follows:

	Governmental Activities	Airport Fund
Net position/fund balance (deficit) at December 31, 2021, as previously reported	\$ 5,515,255	\$ (270,354)
Add right-to-use assets under GASB Statement No. 87 at January 1, 2022	4,758	-
Add lease liability under GASB Statement No. 87 at January 1, 2022	(4,758)	-
Add lease receivable under GASB Statement No. 87 at January 1, 2022	7,708	7,708
Add deferred inflow of resources for lease receivable under GASB Statement No. 87 at January 1, 2022	(7,708)	(7,708)
Net position/fund balance (deficit) at January 1, 2022, as restated	\$ 5,515,255	\$ (270,354)

Note 15 - Subsequent Events

The City has evaluated subsequent events through September 22, 2023, the date which the financial statements were available to be issued. The City issued \$796,000 General Obligation Capital Improvement Plan Note, Series 2023A from MN Rural Water Association with funds available June 2023 for the Community Center Project.



Required Supplementary Information
December 31, 2022

City of Fertile, Minnesota

**Schedule of Employer's Proportionate Share of Net Pension Liability
Last 10 Fiscal Years ***

Pension Plan	Measurement Date	Employer's Proportion (Percentage) of the Net Pension Liability	Employer's Proportionate Share (Amount) of the Net Pension Liability (a)	State's Proportionate Share (Amount) of the Net Pension Liability Associated With City (b)	Total (c) (a+b)	Employer's Covered-Payroll (d)	Employer's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Payroll (a/d)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
City	6/30/2015	0.0022%	\$ 114,016	N/A	\$ 114,016	\$ 122,084	93.39%	78.2%
City	6/30/2016	0.0025%	202,987	2,617	205,604	144,343	140.63%	68.9%
City	6/30/2017	0.0028%	178,748	2,270	181,018	172,396	103.68%	75.9%
City	6/30/2018	0.0026%	144,237	4,757	148,994	163,769	88.07%	79.5%
City	6/30/2019	0.0024%	132,691	4,166	136,857	156,570	84.75%	80.2%
City	6/30/2020	0.0026%	155,882	4,842	160,724	174,200	89.48%	79.1%
City	6/30/2021	0.0027%	115,301	3,543	118,844	182,557	63.16%	97.9%
City	6/30/2022	0.0028%	221,761	6,542	228,303	197,180	112.47%	76.7%
Nursing Home	6/30/2015	0.0397%	2,057,460	N/A	2,057,460	2,190,967	93.91%	78.2%
Nursing Home	6/30/2016	0.0341%	2,768,751	36,113	2,804,864	2,309,510	119.88%	68.9%
Nursing Home	6/30/2017	0.0358%	2,285,448	28,765	2,314,213	2,348,066	97.33%	75.9%
Nursing Home	6/30/2018	0.0371%	2,058,156	67,481	2,125,637	2,058,156	100.00%	79.5%
Nursing Home	6/30/2019	0.0386%	2,134,108	66,330	2,200,438	2,776,777	76.86%	80.2%
Nursing Home	6/30/2020	0.0411%	2,464,133	76,044	2,540,177	2,978,957	82.72%	79.1%
Nursing Home	6/30/2021	0.0427%	1,823,481	55,680	1,879,161	2,974,792	61.30%	87.0%
Nursing Home	6/30/2022	0.0396%	3,136,333	92,036	3,228,369	2,788,693	112.47%	76.7%

* GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend in compiled, the City will present information for those years for which information is available.

**Schedule of Employer's Contributions
Last 10 Fiscal Years ***

Pension Plan	Fiscal Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered-Payroll (c)	Contributions as a Percentage of Covered-Payroll (b/c)
City	12/31/2015	\$ 10,544	\$ 10,544	\$ -	\$ 140,587	7.5%
City	12/31/2016	11,947	11,947	-	159,293	7.5%
City	12/31/2017	13,663	13,663	-	182,173	7.5%
City	12/31/2018	13,467	13,467	-	179,563	7.5%
City	12/31/2019	13,758	13,758	-	183,440	7.5%
City	12/31/2020	12,393	12,393	-	165,240	7.5%
City	12/31/2021	14,430	14,430	-	192,400	7.5%
City	12/31/2022	15,961	15,961	-	212,813	7.5%
Nursing Home	9/30/2015	142,366	147,529	(5,163)	2,190,253	6.7%
Nursing Home	9/30/2016	150,118	153,436	(3,318)	2,309,510	6.6%
Nursing Home	9/30/2017	173,141	178,735	(5,594)	2,348,066	7.6%
Nursing Home	9/30/2018	186,801	187,703	(902)	2,556,947	7.3%
Nursing Home	9/30/2019	204,692	176,656	28,036	2,776,777	6.4%
Nursing Home	9/30/2020	219,946	224,215	(4,269)	2,978,957	7.5%
Nursing Home	9/30/2021	230,702	219,191	11,511	2,974,792	7.4%
Nursing Home	9/30/2022	222,559	226,574	(4,015)	2,788,693	7.1%

* GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the City will present information for those years for which information is available.

Notes to the Schedule of Employer's Share of Net Pension Liability and Schedule of Employer's Contributions**General Employees Fund****2022 Changes**

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

2021 Changes

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

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.

Changes in Plan Provisions

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

2018 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.

Changes in Plan Provisions

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

2017 Changes**Changes in Actuarial Assumptions**

- The combined service annuity (CSA) loads were changed from 0.80 percent for active members and 60.00 percent for vested and non-vested deferred members. The revised CSA load are now 0.00 percent for active member liability, 15.00 percent for vested deferred member liability, and 3.00 percent for non-vested deferred member liability.
- The assumed postretirement benefit increase rate was changed for 1.00 percent per year for all years to 1.00 percent per year through 2044 and 2.50 percent per year thereafter.

Changes in Plan Provisions

- The State's contribution for the Minneapolis Employees Retirement Fund equals \$16,000,000 in 2017 and 2018, and \$6,000,000 thereafter.
- The Employer Supplemental Contribution for the Minneapolis Employees Retirement Fund changed from \$21,000,000 to \$31,000,000 in calendar years 2019 to 2031. The state's contribution changed from \$16,000,000 to \$6,000,000 in calendar years 2019 to 2031.

2016 Changes

Changes in Actuarial Assumptions

- The assumed postretirement benefit increase rate was changed from 1.00 percent per year through 2035 and 2.50 percent per year thereafter to 1.00 percent per year for all years.
- The assumed investment return was changed from 7.90 percent to 7.50 percent. The single discount rate changed from 7.90 percent to 7.50 percent.
- Other assumptions were changed pursuant to the experience study June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25 percent to 3.25 percent for payroll growth and 2.50 percent for inflation.

Changes in Plan Provisions

- There have been no changes since the prior valuation.

2015 Changes

Changes in Actuarial Assumptions

- The assumed postretirement benefit increase rate was changed from 1.00 percent per year through 2030 and 2.50 percent per year thereafter to 1.00 percent per year through 2035 and 2.50 percent per year thereafter.

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 increase the fiduciary plan net position by \$892 million. Upon consolidation, state and employer contributions were revised; the State's contribution of \$6.0 million, which meets the special funding situation definition, was due September 2015.

City of Fertile, Minnesota
Schedule of Changes in Net Pension Liability - Firemen's Relief Association
December 31, 2022

**Schedule of Changes in Net Pension Liability
Last 10 Fiscal Years ***

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Total Pension Liability			
Service Cost	\$ 14,375	\$ 14,024	\$ 13,682
Interest	15,934	16,224	15,674
Gain or loss	(2,364)		
Benefit payments, including refunds of member contributions	<u>(72,793)</u>	<u>-</u>	<u>(37,400)</u>
Net change in total pension liability	(44,848)	30,248	(8,044)
Beginning of year	<u>340,709</u>	<u>310,461</u>	<u>318,505</u>
End of year	<u><u>\$ 295,861</u></u>	<u><u>\$ 340,709</u></u>	<u><u>\$ 310,461</u></u>
Plan Fiduciary Net Position			
Contributions - state and local	\$ 25,700	\$ 48,558	\$ 36,725
Projected Investment Return	23,172	20,339	16,787
Gain or Loss	36,384	40,520	35,343
Benefit payments, including refunds of member contributions	(72,793)	-	(37,400)
Administrative expense	<u>(4,525)</u>	<u>(5,350)</u>	<u>(4,725)</u>
Net change in plan fiduciary net position	7,938	104,067	46,730
Beginning of year	<u>489,244</u>	<u>385,177</u>	<u>338,447</u>
End of year	<u><u>\$ 497,182</u></u>	<u><u>\$ 489,244</u></u>	<u><u>\$ 385,177</u></u>
Net Pension Liability (Asset)	<u><u>\$ (201,321)</u></u>	<u><u>\$ (148,535)</u></u>	<u><u>\$ (74,716)</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	168.05%	143.60%	124.07%
Covered Employee Payroll	N/A	N/A	N/A
Net Pension Liability as a Percentage of Covered Payroll	N/A	N/A	N/A

* GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the City will present information for those years for which information is available.

City of Fertile, Minnesota
 Schedule of Employer Contributions and Non-Employer Contributing Entities – Firemen’s Relief Association
 December 31, 2022

**Schedule of Employer Contributions and Non-Employer Contributing Entities
 Last 10 Fiscal Years ***

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Employer			
Statutorily determined Contribution (SDC)	\$ -	\$ -	\$ -
Contributions made	<u>-</u>	<u>-</u>	<u>-</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Non-Employer			
2% aid	<u>\$ 26,460</u>	<u>\$ 48,558</u>	<u>\$ 36,725</u>

* GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the City will present information for those years for which information is available.



Other Supplementary Information
December 31, 2022

City of Fertile, Minnesota

City of Fertile, Minnesota
Budget to Actual – General Fund
Year Ended December 31, 2022

	2022		
	Original and Final Budget	Actual Amounts	Variance with Final Budget
Revenues			
Taxes - general property	\$ 253,000	\$ 260,403	\$ 7,403
Special assessments	-	3,911	3,911
Licenses and permits	3,550	4,493	943
Intergovernmental			
Federal grants and aids	43,279	44,696	1,417
Local government aid	320,853	320,853	-
Market value credit	-	24	24
Fire relief aid	12,000	28,560	16,560
PERA aid	10,910	-	(10,910)
Total intergovernmental	387,042	394,133	7,091
Charges for services			
Community Center rent	21,000	23,870	2,870
Highways and streets	28,000	3,814	(24,186)
Fire department	28,000	115,105	87,105
Other	9,750	10,512	762
Total charges for services	86,750	153,301	66,551
Fines and forfeits	1,200	2,540	1,340
Miscellaneous			
Interest	500	1,372	872
Refunds and reimbursements	3,000	28,332	25,332
Cable TV fee	8,500	9,124	624
Other	168,500	60,074	(108,426)
Total miscellaneous	180,500	98,902	(81,598)
Total revenues	\$ 912,042	\$ 917,683	\$ 5,641

City of Fertile, Minnesota
Budget to Actual – General Fund
Year Ended December 31, 2022

	2022		
	Original and Final Budget	Actual Amounts	Variance with Final Budget
Expenditures			
General government			
Mayor and council	6,000	4,270	1,730
City clerk/administrator	56,130	40,868	15,262
Professional services	40,650	98,643	(57,993)
Contracted service	8,990	4,590	4,400
Election	4,350	2,486	1,864
Other general	1,700	1,776	(76)
Total general government	<u>117,820</u>	<u>152,633</u>	<u>(34,813)</u>
Public safety			
Police protection			
Contracted services	525	514	11
Fire			
Contracted services and pension	43,500	53,488	(9,988)
Other current charges	30,100	31,695	(1,595)
Capital outlay	2,000	-	2,000
Miscellaneous public safety			
Other services and charges	25,610	21,832	3,778
Total public safety	<u>101,735</u>	<u>107,529</u>	<u>(5,794)</u>
Streets and highways			
Street maintenance	204,897	162,594	42,303
Snow and ice removal	7,000	7,177	(177)
Street lighting	20,000	-	20,000
Capital outlay	85,000	105,542	(20,542)
Total streets and highways	<u>316,897</u>	<u>275,313</u>	<u>41,584</u>
Community Center	<u>34,700</u>	<u>44,066</u>	<u>(9,366)</u>
Waste control	<u>2,100</u>	<u>3,327</u>	<u>(1,227)</u>

City of Fertile, Minnesota
Budget to Actual – General Fund
Year Ended December 31, 2022

	2022		
	Original and Final Budget	Actual Amounts	Variance with Final Budget
Culture and recreation			
Parks and recreation	5,500	2,586	2,914
Nature Center	250	2,095	(1,845)
Skating rink	10,400	9,010	1,390
Agassiz Learning Center	19,500	38,002	(18,502)
Capital outlay	1,000	3,927	(2,927)
Total culture and recreation	<u>36,650</u>	<u>55,620</u>	<u>(18,970)</u>
Housing and economic development			
Economic development	2,800	3,958	(1,158)
Unallocated benefits and insurance	167,045	110,037	57,008
Weed and insect control	8,400	5,979	2,421
ECPN Program	95,000	114,203	(19,203)
Miscellaneous	4,800	9,811	(5,011)
Debt service			
Principal	-	45,942	(45,942)
Interest	-	10,650	(10,650)
Total debt service	<u>-</u>	<u>56,592</u>	<u>(56,592)</u>
Total expenditures	<u>\$ 887,947</u>	<u>\$ 939,068</u>	<u>\$ (51,121)</u>
Excess (Deficit) of Revenues			
Over (Under) Expenditures	24,095	(21,385)	(45,480)
Other Financing Sources			
Transfers In	-	117,815	117,815
Net Change in Fund Balances	<u>\$ 24,095</u>	96,430	<u>\$ 72,335</u>
Fund Balances - Beginning		<u>946,351</u>	
Fund Balances - Ending		<u>\$ 1,042,781</u>	



Other Reports
December 31, 2022

City of Fertile, Minnesota



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*

The Honorable Mayor and
Members of the City Council
City of Fertile, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of the City of Fertile, Minnesota as of and for the year ended December 31, 2022 and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated September 22, 2023.

Report on Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We identified certain deficiencies in internal control, described in the accompanying Summary of Audit Findings as items 2022-001, 2022-002, 2022-003, and 2022-004 that we consider to be material weaknesses.

Report on Compliance and Other Matters

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

The City's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the City's response to the findings identified in our audit and described in the accompanying Summary of Audit Findings. The City's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

The image shows a handwritten signature in cursive script that reads "Eide Bailly LLP".

Fargo, North Dakota
September 22, 2023



Independent Auditor Report on *Minnesota Legal Compliance*

The Honorable Mayor and
Members of the City Council
City of Fertile, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, business type activities and each major fund of the City of Fertile, Minnesota, as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated September 22, 2023.

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

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

A handwritten signature in black ink that reads "Eide Bailly LLP".

Fargo, North Dakota
September 22, 2023

Section I – Financial Statement Findings

**2022-001 Segregation of Duties
Material Weakness**

Criteria – A good system of internal control requires an adequate segregation of duties so that no one individual has incompatible responsibilities. No one person should have more than one duty relating to the authorization (approval), custody of assets (check signers), record keeping and reconciliation functions.

Condition – The City does not have enough staff to adequately separate duties in cash receipts, cash disbursements, accounts payable and purchasing, payroll and related liabilities, and general ledger maintenance and reconciliation.

Cause – There is a limited amount of office employees involved in the internal control process.

Effect – Inadequate segregation of duties could adversely affect the City's ability to detect misstatements in amounts that would be material in relation to the financial statements in a timely period by employees in the normal course of performing their assigned functions.

Recommendation – The functions should be reviewed to determine if additional segregation of duties is feasible and to improve efficiency and effectiveness of financial management and financial statement accuracy for the City. Segregation of authorization, custody of assets, record keeping and reconciliation functions would assist in mitigating the risk of fraud or misstatements to the financial statements.

View of Responsible Officials – There is no disagreement with the audit finding.

**2022-002 Significant Journal Entries
 Material Weakness**

Criteria – A good system of internal accounting control contemplates an adequate system for recording and processing entries material to the financial statements.

Condition – During the course of our engagement, we proposed numerous material audit adjustments that would not have been identified as a result of the City’s existing internal controls, and therefore could have resulted in a material misstatement of the City’s financial statements.

Cause – The City does not have an internal control system designed to identify all necessary adjustments.

Effect – This control deficiency could result in a material misstatement to the financial statements that would not be prevented or detected.

Recommendation – A thorough review and reconciliation of accounts in each fund should take place prior to the beginning of the audit. This review should be performed at both the accounting staff and accounting supervisor levels.

View of Responsible Officials – There is no disagreement with the audit finding.

**2022-003 Preparation of Financial Statements
 Material Weakness**

Criteria – A good system of internal accounting control contemplates an adequate system for internally preparing the City’s financial statements.

Condition – The City does not have an internal control system designed to provide for the preparation of the financial statements being audited. The auditors were requested to, and did, draft the financial statements and accompanying notes to the financial statements.

Cause – The City does not have an internal control system designed to provide for the preparation of the financial statements being audited.

Effect – The disclosures in the financial statements could be incomplete.

Recommendation – It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

View of Responsible Officials – There is no disagreement with the audit finding.

**2022-004 Approval of Employee Hours/Improper Retention of Employee Personnel Forms
Significant Deficiency**

Criteria – A good system of internal accounting control contemplates an adequate system for ensuring hours worked are properly reviewed and approved as well as for ensuring all required documentation is completed accurately and retained.

Condition – During the course of our engagement, we noted the hours for one employee were not reviewed. We also noted employee personnel forms that were incomplete or missing.

Cause – The City does not have an internal control system designed to review all employee hours or to properly complete and retain required documentation.

Effect – Employee information could result in inaccurate pay due to hours added that were not actually worked as well as result in improper reporting of employee information.

Recommendation – Management should add a control to ensure the hours for the employee are reviewed for each pay period as well as ensuring all employee personnel forms are completed properly and retained appropriately.

View of Responsible Officials – There is no disagreement with the audit finding.

Section II – Minnesota Legal Compliance Findings

None Reported