

# City of Beaver Bay, Minnesota

Annual Financial Statements Together  
with Independent Auditor's Report

For the Year Ended December 31, 2023

# City of Beaver Bay

Year Ended December 31, 2023

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## Organization

### Elective

Tom Gmach

Buddy Kindstrand

Sean McDonald

Katrina Van Nort

Gigi Maxwell

### Office

Mayor

Councilor

Councilor

Councilor

Councilor

### Term expires

December 31, 2026

December 31, 2026

December 31, 2024

December 31, 2024

December 31, 2026

### Appointive

Kristy Gregory – City Administrator

## Independent Auditor's Report

To the Honorable City Council  
City of Beaver Bay  
Beaver Bay, Minnesota

### Report on the Audit of the Financial Statements

#### *Opinions*

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Beaver Bay, Minnesota (City), as of and for the year ended December 31, 2023, 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, each major fund, and the aggregate remaining fund information of the City of Beaver Bay, Minnesota, as of December 31, 2023, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison for the General 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 standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City, 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.

#### *Responsibilities of Management for the Financial Statements*

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City'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 management's discussion and analysis, pages 5 through 10, and the information about the City's net pension liability, pages 45 through 49, 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.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated August 16, 2024, 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 and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

*Wipfli LLP*

Wipfli LLP

Duluth, Minnesota

August 16, 2024

## **Management's Discussion and Analysis**

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# City of Beaver Bay

## Management's Discussion and Analysis

Year Ended December 31, 2023

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Our discussion and analysis of the City of Beaver Bay's (City) financial performance provides an overview of the City's financial activities for the fiscal year ended December 31, 2023. Please read it in conjunction with the City's financial statements, which begin on page 11.

### Financial Highlights

- The results of this year's activities resulted in a decrease in total net position of \$162,104. The governmental activities net position decreased by \$78,007 and the business-type activities net position decreased by \$84,097.
- The General Fund's unassigned fund balance was \$597,640 at December 31, 2023.
- The Enterprise Fund's unrestricted net position was \$225,890 at December 31, 2023.

### Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities (on pages 11 and 12) provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements start on page 13. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds.

### Reporting the City as a Whole

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets and deferred outflows of resources and liabilities and deferred inflows of resources using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's net position and changes in it. You can think of the City's net position - the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources - as one way to measure the City's financial health or financial position. Over time, increases or decreases in the City's net position is one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the City's property tax base and the condition of the City's roads and other infrastructure assets, to assess the overall health of the City.



# City of Beaver Bay

## Management's Discussion and Analysis

Year Ended December 31, 2023

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In the Statement of Net Position and the Statement of Activities, we divide the City into two kinds of activities:

- Governmental activities - Most of the City's basic services are reported here, including fire, public works, parks departments, and general administration. Property taxes, charges for services and state grants finance most of these activities.
- Business-type activities - The City charges a fee to customers to help it cover all or most of the cost of certain services it provides. The City's water and sewer system and liquor store are reported here.

### Reporting the City's Most Significant Funds

The fund financial statements provide detailed information about the most significant funds - not the City as a whole. Some funds are required to be established by State law and by bond covenants. However, the City Council establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The City's two kinds of funds - governmental and proprietary - use different accounting approaches.

- Governmental fund - The City's basic services are reported in the General Fund, which focuses on how money flows into and out of the fund and the balance left at year-end that is available for spending. The General Fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The General Fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. General Fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in reconciliations after each fund financial statement.
- Proprietary funds - When the City charges customers for the services it provides, whether to outside customers or to other units of the City, these services are generally reported in the Statement of Net Position and the Statement of Activities. In fact, the City's enterprise funds (a component of proprietary funds) are the same as the business-type activities we report in the governmental-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds.

### The City as a Whole

As noted earlier, over time net position may serve as a useful indicator of the City's financial position. The largest portion of the City's net position (77 percent) is net investment in capital assets (land, buildings, equipment, and infrastructure.)

# City of Beaver Bay

## Management's Discussion and Analysis

Year Ended December 31, 2023

The following table presents a summary of the City's net position at December 31:

	2023			2022		
	Governmental Activities	Business- type Activities	Total	Governmental Activities	Business- type Activities	Total
<b>Assets</b>						
Current and other assets	\$ 801,167	\$ 447,913	\$ 1,249,080	\$ 829,688	\$ 489,835	\$ 1,319,523
Capital assets	736,070	2,879,948	3,616,018	780,711	2,954,736	3,735,447
<b>Total assets</b>	<b>1,537,237</b>	<b>3,327,861</b>	<b>4,865,098</b>	<b>1,610,399</b>	<b>3,444,571</b>	<b>5,054,970</b>
Deferred outflow of resources	26,771	41,867	68,638	39,809	54,974	94,783
<b>Liabilities</b>						
Long-term liabilities	85,053	593,031	678,084	123,076	691,965	815,041
Other liabilities	29,464	58,007	87,471	17,446	43,254	60,700
<b>Total liabilities</b>	<b>114,517</b>	<b>651,038</b>	<b>765,555</b>	<b>140,522</b>	<b>735,219</b>	<b>875,741</b>
Deferred inflow of resources	44,753	41,654	86,407	26,941	3,193	30,134
<b>Net position</b>						
Net investment in capital assets	736,070	2,419,948	3,156,018	780,711	2,432,736	3,213,447
Restricted		64,358	64,358	-	60,865	60,865
Unrestricted	668,668	192,730	861,398	702,034	267,532	969,566
<b>Total net position</b>	<b>\$ 1,404,738</b>	<b>\$ 2,677,036</b>	<b>\$ 4,081,774</b>	<b>\$ 1,482,745</b>	<b>\$ 2,761,133</b>	<b>\$ 4,243,878</b>

# City of Beaver Bay

## Management's Discussion and Analysis

Year Ended December 31, 2023

To give users a better understanding of the sources and uses of the City's net position, the table that follows presents a summary of revenues, expenses, and changes in net position for the years ended December 31:

	2023			2022		
	Governmental Activities	Business- type Activities	Total	Governmental Activities	Business- type Activities	Total
<b>Revenues</b>						
Program revenues						
Charges for services	\$ 14,119	\$ 1,029,456	\$ 1,043,575	\$ 51,578	\$ 851,909	\$ 903,487
Operating grants and contributions	6,475		6,475	6,400		6,400
General revenues						
Property taxes	311,633	17,115	328,748	307,622	16,740	324,362
State aids	5,416		5,416	10,924		10,924
Investment income	3,958		3,958	566		566
Other	5,529	41,500	47,029	13,393	37,051	50,444
<b>Total revenues</b>	<b>347,130</b>	<b>1,088,071</b>	<b>1,435,201</b>	<b>390,483</b>	<b>905,700</b>	<b>1,296,183</b>
<b>Program expenses</b>						
General government	226,869		226,869	215,180		215,180
Public safety	25,262		25,262	12,076		12,076
Public works	140,263		140,263	154,921		154,921
Economic development	13,265		13,265	13,265		13,265
Culture and recreation	19,478		19,478	14,661		14,661
Liquor store		793,707	793,707		679,786	679,786
Water utility		159,048	159,048		149,840	149,840
Sewer disposal		219,413	219,413		191,250	191,250
<b>Total expenses</b>	<b>425,137</b>	<b>1,172,168</b>	<b>1,597,305</b>	<b>410,103</b>	<b>1,020,876</b>	<b>1,430,979</b>
Change in net position	(78,007)	(84,097)	(162,104)	(19,620)	(115,176)	(134,796)
Net position, beginning	1,482,745	2,761,133	4,243,878	1,502,365	2,876,309	4,378,674
Net position, ending	\$ 1,404,738	\$ 2,677,036	\$ 4,081,774	\$ 1,482,745	\$ 2,761,133	\$ 4,243,878

# City of Beaver Bay

## Management's Discussion and Analysis

Year Ended December 31, 2023

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### The City's Funds

#### Governmental Fund

The focus of the City's governmental fund is to provide information on near-term inflows, outflows, and balances of spendable resources. This information is helpful in assessing the City's financing requirements; unassigned fund balance may be an especially useful measure of the net resources available for spending at the end of the fiscal year.

As the City completed the year, its governmental fund (as presented in the balance sheet on page 13) reported a fund balance of \$736,164, which is \$37,706 less than last year's total of \$773,870.

#### Proprietary Funds

The City's proprietary funds provide the same type of information found in the government-wide financial statements, only in more detail. The proprietary funds reported net position of \$2,677,036. The net position decreased by \$84,097 from last year's total of \$2,761,133.

#### General Fund Budgetary Highlights

The General Fund adopted an original revenue budget of \$365,500 and an original expenditure budget of \$369,250 which were not revised during the year. The budget anticipated that expenditures would exceed revenues by \$3,750. The actual results for the year showed expenditures exceeded revenues by \$37,706.

Actual revenues were \$22,042 less than budgeted primarily due to fewer charges for services, such as rent and tenant utilities, than budgeted.

Actual expenditures were \$11,914 more than budgeted primarily due to more public safety maintenance repairs and supplies than budgeted for in 2023.

#### Capital Asset and Debt Administration

##### Capital Assets

At December 31, 2023, the City had \$6,449,260 invested in a broad range of capital assets, including fire equipment, buildings, park facilities, and water and sewer lines. Additional information related to the City's capital assets can be found in Note 3 of the notes to the financial statements. Pursuant to GASB Statement No. 34, the City is not required to record and depreciate infrastructure assets acquired before the implementation date; therefore, the financial statements do not include any infrastructure assets prior to implementation in 2004. Infrastructure assets include roads, bridges, underground (other than related to utilities), traffic signals, etc.

##### Debt

The City had \$460,000 in general obligation revenue notes outstanding as of December 31, 2023. Additional information related to the City's long-term debt can be found in Note 4 of the notes to the financial statements.

# City of Beaver Bay

## Management's Discussion and Analysis

Year Ended December 31, 2023

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

The 2024 tax levy is \$321,300.

The City of Beaver Bay has secured \$432,000 in congressionally directed spending for a future Water Intake Repair Project.

### **Contacting the City's Financial Management**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Clerk, Beaver Bay, MN, (218) 226-3251.

# **Government-Wide Financial Statements**

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# City of Beaver Bay

## Statement of Net Position

December 31, 2023

	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Cash	\$ 568,215	\$ 381,919	\$ 950,134
Accounts receivable, net	6,857	26,800	33,657
Taxes receivable	36,600	2,013	38,613
Special assessments receivable	4,456		4,456
Prepaid expenses	28,014	1,224	29,238
Inventories		110,502	110,502
Internal balances	138,903	(138,903)	
Restricted assets			
Cash		64,358	64,358
Lease receivable	18,122		18,122
Capital assets not being depreciated	91,373	33,160	124,533
Capital assets being depreciated, net	644,697	2,846,788	3,491,485
<b>Total assets</b>	<b>1,537,237</b>	<b>3,327,861</b>	<b>4,865,098</b>
Deferred outflows of resources - related to pensions	26,771	41,867	68,638
<b>Total assets and deferred outflows of resources</b>	<b>\$ 1,564,008</b>	<b>\$ 3,369,728</b>	<b>\$ 4,933,736</b>
<b>Liabilities</b>			
Accounts payable	\$ 21,607	\$ 41,656	\$ 63,263
Accrued wages and benefits	7,857	14,633	22,490
Accrued interest		1,718	
Noncurrent liabilities			
Due within one year		62,000	62,000
Due in more than one year	85,053	531,031	616,084
<b>Total liabilities</b>	<b>114,517</b>	<b>651,038</b>	<b>763,837</b>
Deferred inflows of resources			
Lease receivable	18,122		18,122
Related to pensions	26,631	41,654	68,285
<b>Total deferred inflows of resources</b>	<b>44,753</b>	<b>41,654</b>	<b>86,407</b>
Net position			
Net investment in capital assets	736,070	2,419,948	3,156,018
Restricted		64,358	64,358
Unrestricted	668,668	192,730	861,398
<b>Total net position</b>	<b>1,404,738</b>	<b>2,677,036</b>	<b>4,081,774</b>
<b>Total liabilities, deferred inflows of resources, and net position</b>	<b>\$ 1,564,008</b>	<b>\$ 3,369,728</b>	<b>\$ 4,933,736</b>

See accompanying notes to financial statements.

# City of Beaver Bay

## Statement of Activities

For the Year Ended December 31, 2023

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities
<b>Governmental activities</b>						
General government	\$ 226,869	\$ 14,119	\$	\$	\$ (212,750)	\$ (212,750)
Public safety	25,262				(25,262)	(25,262)
Public works	140,263				(140,263)	(140,263)
Economic development	13,265				(13,265)	(13,265)
Culture and recreation	19,478		6,475		(13,003)	(13,003)
<b>Total governmental activities</b>	<b>\$ 425,137</b>	<b>\$ 14,119</b>	<b>\$ 6,475</b>	<b>\$</b>	<b>(404,543)</b>	<b>(404,543)</b>
<b>Business type activities</b>						
Liquor store	\$ 793,707	\$ 773,787	\$	\$	(19,920)	(19,920)
Water utility	159,048	155,945			(3,103)	(3,103)
Sewer disposal	219,413	99,724			(119,689)	(119,689)
<b>Total business-type activities</b>	<b>\$ 1,172,168</b>	<b>\$ 1,029,456</b>	<b>\$</b>	<b>\$</b>	<b>(142,712)</b>	<b>(142,712)</b>
<b>General revenues and transfers</b>						
Property taxes					311,633	328,748
State aids					5,416	5,416
Investment income					3,958	3,958
Other					5,529	47,029
<b>Total general revenues and transfers</b>					<b>326,536</b>	<b>385,151</b>
Change in net position					(78,007)	(162,104)
Net position, beginning of the year					1,482,745	4,243,878
Net position, end of the year					\$ 1,404,738	\$ 4,081,774

See accompanying notes to financial statements.



# City of Beaver Bay

## Governmental Fund - Balance Sheet

December 31, 2023

	General Fund
<hr/>	
Assets	
Cash	\$ 568,215
Accounts receivable, net of allowance for doubtful accounts of \$24,516	6,857
Taxes receivable	36,600
Special assessments receivable	4,456
Due from other funds	138,903
Prepaid expenses	28,014
Lease receivable	18,122
<hr/>	
Total assets	\$ 801,167
<hr/>	
Liabilities	
Accounts payable	\$ 21,607
Accrued wages and benefits	7,857
<hr/>	
Total liabilities	29,464
<hr/>	
Deferred inflows of resources	
Lease receivable	18,122
Unavailable revenue - Delinquent property taxes	12,961
Unavailable revenue - Special assessments	4,456
<hr/>	
Total deferred inflows of resources	35,539
<hr/>	
Fund balance	
Nonspendable	28,014
Assigned	110,510
Unassigned	597,640
<hr/>	
Total fund balance	736,164
<hr/>	
Total liabilities, deferred inflows of resources, and fund balance	\$ 801,167
<hr/>	

See accompanying notes to financial statements.

# City of Beaver Bay

## Governmental Fund - Reconciliation of the Balance Sheet to the Statement of Net Position

December 31, 2023

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Total fund balance - governmental fund	\$ 736,164
Amounts reported for governmental activities in the statement of activities are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.	
Cost of capital assets	1,634,897
Less accumulated depreciation	(898,827)
The net pension liability and the deferred outflows of resources and inflows of resources related to pensions are only reported in the statement of net position.	
Net pension liability	(85,053)
Deferred outflows of resources	26,771
Deferred inflows of resources	(26,631)
Long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.	17,417
<hr/>	
Total net position - governmental activities	<u>\$ 1,404,738</u>

See accompanying notes to financial statements.

# City of Beaver Bay

## Governmental Fund - Statement of Revenues, Expenditures, and Changes in Fund Balance

For the Year Ended December 31, 2023

	General Fund
Revenues	
Taxes	\$ 307,960
Licenses and permits	7,816
Intergovernmental	11,891
Charges for services	6,278
Interest	3,958
Miscellaneous	5,555
Total revenues	343,458
Expenditures	
Current	
General government	223,862
Public safety	25,262
Public works	111,435
Culture and recreation	19,478
Capital outlay	1,127
Total expenditures	381,164
Change in net position	(37,706)
Fund balance, beginning	773,870
Fund balance, ending	\$ 736,164

See accompanying notes to financial statements.

# City of Beaver Bay

## Governmental Fund - Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities

For the Year Ended December 31, 2023

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Total net change in fund balance - governmental fund \$ (37,706)

Amounts reported for governmental activities in the statement of activities  
are different because:

Capital outlays are reported in governmental funds as expenditures. However in the  
statement of activities, the costs of those assets is allocated over the estimated useful  
lives as depreciation expense.

Capital outlays	
Depreciation expense	(44,641)

Vested employee benefits are reported in the governmental funds when amounts are  
paid. The statement of activities reports the value of the benefits earned during the year.

Change in deferred outflows of resources related to pensions	(13,038)
Change in deferred inflows of resources related to pensions	(24,318)
Change in net pension liability	38,023

Revenues in the statement of activities that do not provide current financial resources are  
not reported as revenues in the funds.

3,673

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Change in net position - governmental activities \$ (78,007)

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See accompanying notes to financial statements.

# City of Beaver Bay

## General Fund - Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual

For the Year Ended December 31, 2023

	Original and Final Budget	Actual	Variance Over (Under)
<b>Revenues</b>			
Taxes	\$ 306,000	\$ 307,960	\$ 1,960
Licenses and permits	9,500	7,816	(1,684)
Intergovernmental	9,700	11,891	2,191
Charges for services	34,000	6,278	(27,722)
Interest	600	3,958	3,358
Miscellaneous	5,700	5,555	(145)
<b>Total revenues</b>	<b>365,500</b>	<b>343,458</b>	<b>(22,042)</b>
<b>Expenditures</b>			
<b>Current</b>			
General government	217,950	223,862	5,912
Public safety	14,000	25,262	11,262
Public works	112,900	111,435	(1,465)
Culture and recreation	14,400	19,478	5,078
Capital outlay	10,000	1,127	(8,873)
<b>Total expenditures</b>	<b>369,250</b>	<b>381,164</b>	<b>11,914</b>
<b>Net change in fund balance</b>	<b>(3,750)</b>	<b>(37,706)</b>	<b>(33,956)</b>
<b>Fund balance, beginning</b>	<b>773,870</b>	<b>773,870</b>	
<b>Fund balance, ending</b>	<b>\$ 770,120</b>	<b>\$ 736,164</b>	<b>\$ (33,956)</b>

See accompanying notes to financial statements.

# City of Beaver Bay

## Proprietary Funds - Statement of Net Position

December 31, 2023

	Business-type Activities Enterprise Funds			Total
	Liquor Enterprise Fund	Water Enterprise Fund	Sewer Enterprise Fund	
<b>Assets</b>				
Current assets				
Cash	\$ 147,142	\$ 61,159	\$ 173,618	\$ 381,919
Accounts receivable		12,913	13,887	26,800
Taxes receivable			2,013	2,013
Prepaid expenses	1,224			1,224
Inventories	110,502			110,502
<b>Total current assets</b>	<b>258,868</b>	<b>74,072</b>	<b>189,518</b>	<b>522,458</b>
Restricted assets				
Restricted cash			64,358	64,358
Noncurrent assets				
Capital assets				
Assets not being depreciated		33,160		33,160
Assets being depreciated, net	113,330	1,892,735	840,723	2,846,788
<b>Total assets</b>	<b>372,198</b>	<b>1,999,967</b>	<b>1,094,599</b>	<b>3,466,764</b>
Deferred outflows of resources - Related to pensions	26,768	8,236	6,863	41,867
<b>Total assets and deferred outflows of resources</b>	<b>\$ 398,966</b>	<b>\$ 2,008,203</b>	<b>\$ 1,101,462</b>	<b>\$ 3,508,631</b>

# City of Beaver Bay

## Proprietary Funds - Statement of Net Position (Continued)

December 31, 2023

	Business-type Activities Enterprise Funds			Total
	Liquor Enterprise Fund	Water Enterprise Fund	Sewer Enterprise Fund	
<b>Liabilities</b>				
Current liabilities				
Accounts payable	\$ 6,796	\$ 33,509	\$ 1,351	\$ 41,656
Accrued wages and benefits	10,549	2,042	2,042	14,633
Due to other funds		138,903		138,903
Accrued interest		757	961	1,718
Current portion of revenue notes payable		48,000	14,000	62,000
<b>Total current liabilities</b>	<b>17,345</b>	<b>223,211</b>	<b>18,354</b>	<b>258,910</b>
Noncurrent liabilities				
Revenue notes payable, net of current portion		148,000	250,000	398,000
Net pension liability	85,053	26,170	21,808	133,031
<b>Total noncurrent liabilities</b>	<b>85,053</b>	<b>174,170</b>	<b>271,808</b>	<b>531,031</b>
<b>Total liabilities</b>	<b>102,398</b>	<b>397,381</b>	<b>290,162</b>	<b>789,941</b>
Deferred inflows of resources - Related to pensions	26,631	8,194	6,829	41,654
Net position				
Net investment in capital assets	113,330	1,729,895	576,723	2,419,948
Restricted			64,358	64,358
Unrestricted	156,607	(127,267)	163,390	192,730
<b>Total net position</b>	<b>269,937</b>	<b>1,602,628</b>	<b>804,471</b>	<b>2,677,036</b>
<b>Total liabilities, deferred inflows of resources, and net position</b>	<b>\$ 398,966</b>	<b>\$ 2,008,203</b>	<b>\$ 1,101,462</b>	<b>\$ 3,508,631</b>

See accompanying notes to financial statements.

# City of Beaver Bay

## Proprietary Funds - Statement of Revenues, Expenses, and Changes in Net Position

For the Year Ended December 31, 2023

	Business-type Activities Enterprise Funds			Total
	Liquor Enterprise Fund	Water Enterprise Fund	Sewer Enterprise Fund	
Operating revenues				
Sales and costs of sales				
Sales	\$ 773,787	\$	\$	\$ 773,787
Cost of sales	(515,978)			(515,978)
Gross profit	257,809			257,809
Other operating revenues				
Charges for services		155,945	99,724	255,669
Total gross profit and other operating revenues	257,809	155,945	99,724	513,478
Operating expenses				
Personal services	172,188	40,783	35,000	247,971
Utilities	15,041	18,119	15,576	48,736
Maintenance, supplies, and operational expenses	78,124	38,210	66,506	182,840
Depreciation	12,376	59,532	99,602	171,510
Total operating expenses	277,729	156,644	216,684	651,057
Operating income (loss)	(19,920)	(699)	(116,960)	(137,579)
Nonoperating revenues (expenses)				
Property taxes			17,115	17,115
Miscellaneous	30,220		11,280	41,500
Interest expense		(2,404)	(2,729)	(5,133)
Total nonoperating revenues (expenses)	30,220	(2,404)	25,666	53,482
Change in net position	10,300	(3,103)	(91,294)	(84,097)
Net position, beginning	259,637	1,605,731	895,765	2,761,133
Net position, ending	\$ 269,937	\$ 1,602,628	\$ 804,471	\$ 2,677,036

See accompanying notes to financial statements.



# City of Beaver Bay

## Proprietary Funds - Statement of Cash Flows

For the Year Ended December 31, 2023

	Business-type Activities Enterprise Funds			Total
	Liquor Enterprise Fund	Water Enterprise Fund	Sewer Enterprise Fund	
Cash flows from operating activities				
Receipts from users	\$ 773,788	\$ 152,603	\$ 96,303	\$ 1,022,694
Payments to suppliers	(604,737)	(25,131)	(93,928)	(723,796)
Payments to employees	(157,762)	(37,563)	(36,134)	(231,459)
Net cash provided by (used in) operating activities	11,289	89,909	(33,759)	67,439
Cash flows from noncapital financing activities				
Property tax receipts			16,568	16,568
Miscellaneous receipts	30,220		11,280	41,500
Net cash provided by noncapital financing activities	30,220		27,848	58,068
Cash flows from capital and related financing activities				
Purchase or construction of capital assets		(84,142)	(12,580)	(96,722)
Principal payments on long-term debt		(48,000)	(14,000)	(62,000)
Interest paid on long-term debt		(2,589)	(2,779)	(5,368)
Net cash used in capital and related financing activities		(134,731)	(29,359)	(164,090)
Net increase (decrease) in cash and cash equivalents	41,509	(44,822)	(35,270)	(38,583)
Cash, beginning of year	105,633	105,981	273,246	484,860
Cash, end of year	\$ 147,142	\$ 61,159	\$ 237,976	\$ 446,277

See accompanying notes to financial statements.

# City of Beaver Bay

## Proprietary Funds - Statement of Cash Flows (Continued)

For the Year Ended December 31, 2023

	Business-type Activities Enterprise Funds			Total
	Liquor Enterprise Fund	Water Enterprise Fund	Sewer Enterprise Fund	
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities				
Operating income (loss)	\$ (19,920)	\$ (699)	\$ (116,960)	\$ (137,579)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities				
Depreciation	12,376	59,532	99,602	171,510
Changes in pension related items	11,561	3,714	(640)	14,635
(Increase) decrease in				
Accounts receivable		(3,342)	(3,421)	(6,763)
Prepaid expenses	(192)			(192)
Inventory	10,840			10,840
Increase (decrease) in				
Accounts payable	(6,242)	31,198	(11,846)	13,110
Accrued wages and benefits	2,866	(494)	(494)	1,878
Total adjustments	31,209	90,608	83,201	205,018
Net cash provided by (used in) operating activities	\$ 11,289	\$ 89,909	\$ (33,759)	\$ 67,439
Cash is reported as follows:				
Cash	\$ 147,142	\$ 61,159	\$ 173,618	\$ 381,919
Restricted cash			64,358	64,358
Total	\$ 147,142	\$ 61,159	\$ 237,976	\$ 446,277

See accompanying notes to financial statements.

# City of Beaver Bay

## Fiduciary Fund - Statement of Fiduciary Net Position

December 31, 2023

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	Custodial Fund
Assets	
Cash and cash equivalents	\$ 131,885
Net position	
Held for pension benefits	\$ 131,885

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See accompanying notes to financial statements.

# City of Beaver Bay

## Fiduciary Fund - Statement of Changes in Fiduciary Net Position

Year Ended December 31, 2023

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	Custodial Fund
Additions	\$ 1,696
Change in net position	1,696
Net position, beginning of the year	130,189
Net position, end of the year	\$ 131,885

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See accompanying notes to financial statements.

# City of Beaver Bay

## Notes to Financial Statements

Year Ended December 31, 2023

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### Note 1      **Summary of Significant Accounting Policies**

The City of Beaver Bay (City) complies with accounting principles generally accepted in the United States of America (GAAP) as applied to governments. GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this Note.

#### **Financial Reporting Entity**

The City was incorporated under the laws of the State of Minnesota and operates under an elected Mayor-Council form of government. A mayor and four council members are elected by the voters of the City for four-year terms. The accompanying financial statements present the government and one component unit, an entity for which the government is considered to be financially accountable, is significant because of its relationship with the City and the City has operational responsibility. Blended component units, although legally separate entities, are, in substance, part of the City's operations.

#### **Blended component unit**

The Beaver Bay Economic Development Authority (EDA) was created by the City to assume primary responsibility for development within the City. The EDA is reported in the General Fund in the City's financial statements. The EDA does not issue separate financial statements.

#### **Basis of Presentation**

##### ***Government-wide Financial Statements:***

The Statement of Net Position and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods and services.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenditures are those that are clearly identifiable with a specific function or segment. Program revenues include charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues. Depreciation expense is recorded as an allocated expense in the Statement of Activities. Generally, the effect of material interfund activity has been removed from the government-wide financial statements.

# City of Beaver Bay

## Notes to Financial Statements

Year Ended December 31, 2023

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### Note 1      **Summary of Significant Accounting Policies (Continued)**

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the City's proprietary funds are charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

#### ***Fund Financial Statements:***

The accounts of the City are organized and operated on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. The fund financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. The emphasis of fund financial statements is on the major governmental and enterprise funds, each displayed in a separate column. At December 31, 2023, all of the City's funds, other than the fiduciary fund, were reported as major funds. A general summary of the nature and purposes of each of the funds maintained by the City follows:

#### Governmental Fund

*General Fund* - This fund is the general operating fund of the City and is always classified as a major fund. It is used to account for all activity except that required to be accounted for in another fund.

#### Proprietary Funds

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

*Liquor* - Accounts for the activity for the operation of the City's municipal liquor store.

*Water* - Accounts for the activity of providing water services to the public.

*Sewer* - Accounts for the activity of providing sewage disposal services to the public.

# City of Beaver Bay

## Notes to Financial Statements

Year Ended December 31, 2023

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### Note 1 Summary of Significant Accounting Policies (Continued)

#### Fiduciary Fund

*Custodial Fund* - The Custodial Fund is used to account for the assets received from the dissolution of the Beaver Bay Fire Relief Association. The fund has deductions for payments of pension benefits due former members of the Association. The Custodial Fund will be closed and the remaining assets will be distributed to the City's General Fund when the last pension payment is made to former members.

#### Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. Property tax revenue is recognized when it becomes measurable and available to finance expenditures of the current period. State revenue is recognized in the year in which it applies according to Minnesota Statutes. Other revenues are considered measurable and available only when cash is received. Expenditures generally are recorded when a liability is incurred. Debt service expenditures are recorded only when payment is due.

#### Cash

The City's cash includes cash on hand, demand deposits, and time deposits.

#### Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Business-type activities report user fees for utilities as their major receivable. Property taxes, utility user fees, and special assessment receivables are shown at a gross amount since they are assessable to the property.

# City of Beaver Bay

## Notes to Financial Statements

Year Ended December 31, 2023

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### Note 1 Summary of Significant Accounting Policies (Continued)

Significant receivable balances not expected to be collected within one year of December 31, 2023 are as follows:

	Governmental Activities
Delinquent taxes receivable	\$ 12,961
Special assessments receivable	4,456
<b>Total</b>	<b>\$ 17,417</b>

Property tax levies are set by the City Council in December of each year and are certified to Lake County for collection in the following year. In Minnesota, counties act as collection agents for all property taxes. The County spreads all levies over taxable property. Such taxes become a lien on January 1 and are recorded as receivables by the City on that date. Revenues are accrued and recognized in the year collectible, net of delinquencies. Taxpayers may pay real estate property taxes in two equal installments on May 15 and October 15. Personal property taxes may be paid on February 28 and June 30. The County provides tax settlements to cities and other taxing districts in January, May, and November. Taxes, which remain unpaid at December 31, are classified as delinquent taxes receivable and are fully offset by unearned revenue because they are not known to be available to finance current expenditures. No allowance for uncollectible taxes has been provided because such amounts are not expected to be material.

#### Prepaid items

Payments made to vendors for services that will benefit periods beyond December 31, 2023 are recorded as prepaid items.

#### Inventories

Inventories are valued at the lower of cost or market value, using the first-in, first-out (FIFO) method. The inventories are generally used for operation and maintenance work and are not held for resale.

#### Restricted cash

Restricted Cash - In accordance with the City's debt agreement with the Minnesota Public Facilities Authority, a portion of the sewer user fee is restricted for future wastewater improvements. At December 31, 2023, \$64,358 is restricted for future use.



# City of Beaver Bay

## Notes to Financial Statements

Year Ended December 31, 2023

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### Note 1 Summary of Significant Accounting Policies (Continued)

#### 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 columns in the government-wide financial statements. Capital assets, not including infrastructure assets, are defined by the City as assets with an initial individual cost of more than \$500. Assets are recorded at cost. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value on the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	20 - 40
Equipment	5 - 15
Infrastructure	20
Transmission lines	50

Pursuant to GASB Statement No. 34, the City is not required to record and depreciate infrastructure assets acquired before the implementation date; therefore, the financial statements do not include any infrastructure assets prior to implementation in 2004.

Capital assets not being depreciated include land and construction in progress.

#### Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position and/or balance sheet 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 future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has reported deferred outflows related to pensions for its proportionate shares of collective deferred outflows of resources related to pensions and the City's contributions to pension plans subsequent to the measurement date of the collective net pension liability.

# City of Beaver Bay

## Notes to Financial Statements

Year Ended December 31, 2023

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### Note 1      **Summary of Significant Accounting Policies (Continued)**

In addition to liabilities, the statement of financial position and/or balance sheet 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 reported deferred inflows of resources for unavailable revenue from delinquent property taxes and deferred special assessments, which arises only under a modified accrual basis of accounting, in the governmental fund balance sheet. The City has also reported deferred inflows of resources for its proportionate share of the collective deferred inflows of resources related to pensions.

#### **Pensions**

##### Public Employees Retirement Association

For the purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA except that PERA's fiscal year is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

##### Beaver Bay Fire Relief Association

Former members of the Beaver Bay Fire Department were entitled to a lump sum service pension payable from the Beaver Bay Fire Relief Association if they met eligibility based on age and active service. The Beaver Bay Fire Relief Association dissolved and assets necessary to pay future benefit payments were transferred to the City. Assets held in the Custodial Fund will be used to pay the benefits.

# City of Beaver Bay

## Notes to Financial Statements

Year Ended December 31, 2023

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### Note 1      **Summary of Significant Accounting Policies (Continued)**

#### **Fund Balance**

In the fund financial statements, governmental funds report fund balance in classifications that disclose constraints for which amounts in those funds can be spent. These classifications are: non-spendable, restricted, committed, assigned, and unassigned. Non-spendable fund balance consists of amounts that cannot be spent because it is not in spendable form. Restricted fund balance consists of amounts related to externally imposed constraints established by creditors, grantors, or contributors; or constraints established by state statutory provisions. Committed fund balance consists of amounts that are constrained for specific purposes that are internally imposed by a formal action of the City Council. Assigned fund balance consists of amounts intended to be used for specific purposes but do not meet the criteria to be classified as restricted or committed. In accordance with the City's fund balance policy, the City's management is authorized to assign fund balance to a specific purpose. At December 31, 2023, the City had no restricted or committed fund balance. Unassigned fund balance consists of spendable amounts not contained in another classification and available to meet any current and future years' expenditures. The City applies restricted resources first when an expense is incurred for the purpose for which both restricted and unrestricted fund balance is available. If resources from more than one fund balance classification can be spent, the City will strive to spend resources from fund balance classifications in the following order (first to last): restricted, committed, assigned and unassigned.

#### **Net Position**

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources in the government-wide and proprietary fund financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to construct or acquire the capital assets. Restricted net position consists of net position with constraints placed on the use either by external restrictions imposed by creditors, grantors, laws or regulations of other governments. Unrestricted net position is all other net position that does not meet the definition of restricted or net investment in capital assets. The City applies restricted resources first when an expense is incurred for the purpose for which both restricted and unrestricted net position is available.

#### **Long-term Liabilities**

In the government-wide financial statements and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts are deferred and amortized over the term of the related debt. 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 withheld or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

# City of Beaver Bay

## Notes to Financial Statements

Year Ended December 31, 2023

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### Note 1 Summary of Significant Accounting Policies (Continued)

#### Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates that affect amounts reported in the financial statements during the reporting period. Actual results could differ from such estimates.

#### Change in Accounting Policy

In May 2020, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 96 SBITAs. The statement enhances the relevance and reliability of a government's financial statement by requiring a government to report a subscription asset and subscription liability for a SBITA and to disclose essential information about the arrangement. The adoption of this guidance did not affect beginning net position for the year ended December 31, 2023 and, accordingly, restatement of beginning net position was not necessary.

### Note 2 Cash

Minnesota statutes 118A.02 and 118A.04 authorize the City to designate a depository for public funds and to invest in certificates of deposit. Minnesota statute 118A.03 requires that all city deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit plus accrued interest at the close of the financial institution's banking day, not covered by insurance or bonds.

Minnesota statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral.

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a financial institution failure, the City's deposits may not be returned to it. The City requires collateral for deposits over FDIC insurance amounts. As of December 31, 2023, none of the City's deposits were uninsured or uncollateralized.

# City of Beaver Bay

## Notes to Financial Statements

Year Ended December 31, 2023

### Note 2 Cash (Continued)

The City's total deposits as of December 31, 2023 are \$1,146,377. Presented in the basic financial statements as follows:

Statement of Net Position	
Cash	\$ 950,134
Restricted Cash	64,358
Statement of Fiduciary Net Position	
Cash and cash equivalents	<u>131,885</u>
 Total cash and cash equivalents	 <u><u>\$ 1,146,377</u></u>

### Note 3 Capital Assets

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

	Balance 12/31/22	Additions	Deletions	Balance 12/31/23
<b>Governmental activities</b>				
Capital assets not being depreciated				
Land	\$ 91,373	\$	\$	\$ 91,373
Capital assets being depreciated				
Streets	440,558			440,558
Buildings	748,211			748,211
Equipment and furniture	354,755			354,755
 Total capital assets being depreciated	 1,543,524			 1,543,524
Less accumulated depreciation				
Streets	162,369	22,028		184,397
Buildings	366,247	14,996		381,243
Equipment, furniture, and vehicles	325,570	7,617		333,187
 Total accumulated depreciation	 854,186	 44,641		 898,827
 Total capital assets being depreciated, net	 689,338	 (44,641)		 644,697
 Governmental activities capital assets, net	 \$ 780,711	 \$ (44,641)	 \$	 \$ 736,070

# City of Beaver Bay

## Notes to Financial Statements

Year Ended December 31, 2023

### Note 3 Capital Assets (Continued)

	Balance 12/31/22	Additions	Deletions	Balance 12/31/23
<b>Business-type activities</b>				
Capital assets not being depreciated				
Construction in Progress	\$ 19,800	\$ 13,360	\$	\$ 33,160
Capital assets being depreciated				
Buildings	3,504,700			3,504,700
Equipment, furniture, and vehicles	146,270	19,330		165,600
Transmission lines	1,046,871	64,032		1,110,903
<b>Total capital assets being depreciated</b>	<b>4,697,841</b>	<b>83,362</b>		<b>4,781,203</b>
Less accumulated depreciation				
Buildings	1,392,619	128,907		1,521,526
Equipment and furniture	100,092	17,397		117,489
Transmission lines	270,194	25,206		295,400
<b>Total accumulated depreciation</b>	<b>1,762,905</b>	<b>171,510</b>		<b>1,934,415</b>
<b>Business-type activities capital assets, net</b>	<b>\$ 2,954,736</b>	<b>\$ (74,788)</b>	<b>\$</b>	<b>\$ 2,879,948</b>

Depreciation expense was charged to functions/programs of the City as follows:

<b>Governmental activities</b>	
General government	\$ 2,548
Public works	28,828
Economic development	13,265
<b>Total governmental activities</b>	<b>\$ 44,641</b>
<b>Business-type activities</b>	
Liquor	\$ 12,376
Sewer	99,602
Water	59,532
<b>Total business-type activities</b>	<b>\$ 171,510</b>

# City of Beaver Bay

## Notes to Financial Statements

Year Ended December 31, 2023

### Note 4 Long-term Obligations

Long-term obligations outstanding at December 31, 2023, are summarized below:

	Balance 12/31/22	New Debt	Retired	Balance 12/31/23	Amount Due Within One Year
<b>Governmental activities</b>					
Net pension liability	\$ 123,076		\$ (38,023)	\$ 85,053	\$
<b>Business-type activities</b>					
\$922,425 General Obligation Revenue Note, Series 2008 at an interest rate of 1.06% matures August 20, 2027.	\$ 244,000		\$ (48,000)	\$ 196,000	\$ 48,000
\$440,099 General Obligation Revenue Note, Series 2010 at an interest rate of 1.00% matures August 20, 2040.	278,000		(14,000)	264,000	14,000
Net pension liability	169,965		(36,934)	133,031	
<b>Total</b>	<b>\$ 691,965</b>	<b>\$</b>	<b>\$ (98,934)</b>	<b>\$ 593,031</b>	<b>\$ 62,000</b>

# City of Beaver Bay

## Notes to Financial Statements

Year Ended December 31, 2023

### Note 4 Long-Term Obligations (Continued)

The annual requirements to amortize all obligations outstanding at December 31, 2023, are as follows:

Years Ending December 31,	G.O. Revenue Notes		
	Principal	Interest	Total
2024	\$ 62,000	\$ 4,720	\$ 66,720
2025	63,000	4,070	67,070
2026	64,000	3,410	67,410
2027	65,000	2,741	67,741
2028	15,000	2,060	17,060
2029 - 2033	77,000	8,040	85,040
2034 - 2038	80,000	4,100	84,100
2039 - 2040	34,000	510	34,510
<b>Total</b>	<b>\$ 460,000</b>	<b>\$ 29,651</b>	<b>\$ 489,651</b>

The General Obligation Revenue Note, Series 2008 is paid from the Water Fund. The G.O. Revenue Note, Series 2010 is paid from the Sewer Fund. Interest costs included in expense in 2023 were \$5,133.

The net pension liability is paid from the General Fund, Liquor Enterprise Fund, Water Enterprise Fund and Sewer Enterprise Fund.

### Note 5 Lease Receivable

The City, as a lessor, has entered into a lease agreement for space in a building owned by the City with yearly payments of \$550, increasing 2% yearly, including interest at 1.03% through August 31, 2026. The lease receivable and deferred inflows totaled \$18,003 at December 31, 2023. The total amount of inflows of resources, including lease revenue, interest revenue, and other lease-related inflows recognized during the fiscal year was \$6,732. Total principal and interest payments on the lease are as follows at December 31, 2023:

	Lease Agreement		
	Principal	Interest	Total
2024	\$ 6,812	\$ 154	\$ 6,966
2025	6,763	85	6,848
2026	4,547	18	4,565
<b>Total</b>	<b>\$ 18,122</b>	<b>\$ 257</b>	<b>\$ 18,379</b>



# City of Beaver Bay

## Notes to Financial Statements

Year Ended December 31, 2023

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### Note 6 Interfund Transactions

Interfund balances for the year ended December 31, 2023, were as follows:

<u>Due to/Due from</u>	Due to	Due from
General Fund	\$	\$ 138,903
Water Enterprise Fund	138,903	
<b>Total</b>	<b>\$ 138,903</b>	<b>\$ 138,903</b>

The interfund balance was to eliminate a prior year cash deficit in the Water Enterprise Fund. The balance is expected to be repaid within one year.

### Note 7 Fund Balance

Fund balance was non-spendable for the following purposes at December 31, 2023:

Nonspendable	
General Fund	
Prepaid expenses	\$ 28,014

Fund balance was assigned for the following purposes at December 31, 2023:

Assigned	
General Fund	
City beautification	\$ 10,207
Parks and recreation	56,310
Cemetery	5,116
Economic development	38,877
<b>Total assigned</b>	<b>\$ 110,510</b>

# City of Beaver Bay

## Notes to Financial Statements

Year Ended December 31, 2023

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### Note 8 Defined Benefit Pension Plans

#### Public Employee Retirement Association (PERA)

##### A. Plan Description

The City participates in the General Employees Retirement Plan (General Employees Plan) cost-sharing multiple-employer defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA's defined benefit pension plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code. All full-time and certain part-time employees of the City are covered by the General Employees Plan. General Employees Plan members belong to the Coordinated Plan. Coordinated Plan members are covered by Social Security.

##### B. Benefits Provided

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

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

# City of Beaver Bay

## Notes to Financial Statements

Year Ended December 31, 2023

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### Note 8 Defined Benefit Pension Plan (Continued)

#### C. Contributions

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

Coordinated Plan members were required to contribute 6.5% of their annual covered salary in fiscal year 2023. The City was required to contribute 7.5% for Coordinated Plan members. The City's contributions to the General Employees Fund for the year ended December 31, 2023 were \$23,582. The City's contribution was equal to the required contributions as set by state statute.

#### D. Pension Costs

At December 31, 2023, the City reported a liability of \$218,084 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 \$6,001. The net pension liability was measured as of June 30, 2023, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2022, through June 30, 2023, relative to the total employer contributions received from all of PERA's participating employers. The City's proportionate share was 0.0039%, at the end of the measurement period and of 0.0037% at the beginning of the period.

Proportionate share of the net pension liability	\$ 218,084
State of Minnesota's proportionate share of the net pension liability associated with the City	6,001
Total	<u><u>\$ 224,085</u></u>

For the year ended December 31, 2023, the City recognized pension expense of \$13,967 for its proportionate share of the General Employees Plan's pension expense. In addition, the City recognized an additional \$27 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the General Employees Fund.

# City of Beaver Bay

## Notes to Financial Statements

Year Ended December 31, 2023

### Note 8 Defined Benefit Pension Plan (Continued)

At December 31, 2023, the City reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 7,074	\$ 1,386
Changes in actuarial assumptions	32,625	59,775
Changes in proportion	17,012	
Net difference between projected and actual investment earnings		7,124
Contributions paid to PERA subsequent to the measurement date	11,927	
<b>Total</b>	<b>\$ 68,638</b>	<b>\$ 68,285</b>

\$11,927 reported as deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2024. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31,	Pension Expense Amount
2024	\$ 11,680
2025	(26,144)
2026	7,620
2027	(4,730)
Total	<u>\$ (11,574)</u>

# City of Beaver Bay

## Notes to Financial Statements

Year Ended December 31, 2023

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### Note 8 Defined Benefit Pension Plan (Continued)

#### E. Long-Term Expected Return on Investment

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

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

#### F. Actuarial Methods and Assumptions

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

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

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

Mortality rates for the General Employees Plan are based on the Pub-2010 General Employee Mortality Table. The tables are adjusted slightly to fit PERA's experience.

# City of Beaver Bay

## Notes to Financial Statements

Year Ended December 31, 2023

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### Note 8 Defined Benefit Pension Plan (Continued)

Actuarial assumptions for the General Employees Plan are reviewed every four years. The most recent four-year experience study for the General Employees Plan was completed in 2022. The assumption changes were adopted by the Board and became effective with the July 1, 2023 actuarial valuation.

The following changes in actuarial assumptions and plan provisions occurred in 2023:

Changes in Actuarial Assumptions:

- The investment return assumption and single discount rate were changed from 6.5 percent to 7.00 percent.

Changes in Plan Provisions:

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

#### G. Discount Rate

The discount rate used to measure the total pension liability in 2023 was 7.0 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Fund was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

# City of Beaver Bay

## Notes to Financial Statements

Year Ended December 31, 2023

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### Note 8 Defined Benefit Pension Plan (Continued)

#### H. Pension Liability Sensitivity

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

	1% Decrease in Discount Rate	Discount Rate	1% Increase in Discount Rate
Discount Rate	6.00%	7.00%	8.00%
City's proportionate share of the PERA net pension liability	\$ 385,807	\$ 218,084	\$ 80,124

#### I. Pension Plan Fiduciary Net Position

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

### Note 9 Risk Management

The City purchases commercial insurance for property and liability, transferring the risk of loss to the insurance carrier. The City participates in a risk pool for workers' compensation insurance. The pool in turn contracts with an insurance carrier, thereby transferring the risk from the pool members to the insurance carrier. The workers' compensation policy is retrospectively rated in that the initial premium is adjusted based on the actual experience during coverage period of the group of entities that participate in the pool. There were no significant reductions in insurance coverage from coverage in the prior year, and there were no insurance claims or settlements exceeding insurance coverage in the past three years.

### Note 10 Stewardship, Compliance, and Accountability

#### Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with accounting generally accepted in the United States for the governmental fund classified as the general fund. This budget is approved by the City Council at the fund level for revenues and expenditures. All annual appropriations lapse at year end.

# City of Beaver Bay

## Notes to Financial Statements

Year Ended December 31, 2023

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### Note 10 Stewardship, Compliance, and Accountability (Continued)

The budget is legally enacted through passage of a resolution. The City Council may authorize transfer of budgeted amounts between any fund.

Formal budgetary integration is employed as a management control during the year. Budgetary control is maintained at the fund level and adjustments can be made within the department budget by the City Council. There is a constant review process, and expenditures are not approved until it has been determined that (1) adequate funds were appropriated, (2) the expenditure is still necessary, and (3) funds are available.

The following is a summary of funds which had expenditures in excess of budget for the year ended December 31, 2023:

	Original and Final Budget	Actual	Variance
General Fund:			
General Government	\$ 217,950	\$ 223,862	\$ 5,912
Public Safety	14,000	25,262	11,262
Culture and Recreation	14,400	19,478	5,078



## **Required Supplementary Information**

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# City of Beaver Bay

## Information about the City's Net Pension Liability Public Employers Retirement Association

Year Ended December 31, 2023

### Schedule of Employer's Proportionate Share of Net Pension Liability

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 (b)	Employer's and State's Proportionate Share of the Net Pension Liability (a+b)	Employer's Covered Payroll (c)	Employer's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll (a/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
June 30, 2023	0.0039%	\$ 218,084	\$ 6,001	\$ 224,085	\$ 306,522	71.1%	83.1%
June 30, 2022	0.0037%	\$ 293,041	\$ 8,572	\$ 301,613	\$ 277,494	105.6%	76.7%
June 30, 2021	0.0036%	\$ 153,736	\$ 4,809	\$ 158,545	\$ 262,524	58.6%	87.0%
June 30, 2020	0.0034%	\$ 203,848	\$ 6,277	\$ 210,125	\$ 242,726	84.0%	79.1%
June 30, 2019	0.0035%	\$ 193,507	\$ 6,000	\$ 199,507	\$ 247,106	80.7%	80.2%
June 30, 2018	0.0036%	\$ 199,713	\$ 6,519	\$ 206,232	\$ 242,208	82.5%	79.5%
June 30, 2017	0.0037%	\$ 236,206	\$ 2,935	\$ 239,141	\$ 235,334	100.4%	75.9%
June 30, 2016	0.0034%	\$ 276,063	\$ 3,664	\$ 279,727	\$ 212,633	129.8%	68.9%
June 30, 2015	0.0029%	\$ 150,293	\$	\$ 150,293	\$ 170,284	88.3%	78.2%

### Schedule of Employer's Contributions

Fiscal Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (d)	Contributions as a Percentage of Covered Payroll (b/d)
December 31, 2023	\$ 23,582	\$ 23,582	\$	\$ 314,434	7.50%
December 31, 2022	\$ 21,750	\$ 21,750	\$	\$ 289,992	7.50%
December 31, 2021	\$ 20,103	\$ 20,103	\$	\$ 267,900	7.50%
December 31, 2020	\$ 18,850	\$ 18,850	\$	\$ 251,333	7.50%
December 31, 2019	\$ 18,450	\$ 18,450	\$	\$ 245,998	7.50%
December 31, 2018	\$ 18,447	\$ 18,447	\$	\$ 245,956	7.50%
December 31, 2017	\$ 18,185	\$ 18,185	\$	\$ 242,463	7.50%
December 31, 2016	\$ 16,927	\$ 16,927	\$	\$ 225,632	7.50%
December 31, 2015	\$ 14,493	\$ 14,493	\$	\$ 193,247	7.50%

# City of Beaver Bay

## Information about the City's Net Pension Liability Public Employers Retirement Association

Year Ended December 31, 2023

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### 2023 Changes

#### Changes in Actuarial Assumptions

- The investment return assumption and single discount rate were changed from 6.5 percent to 7.00 percent.

#### Changes in Plan Provisions

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

### 2022 Changes

#### Changes in Actuarial Assumptions

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

#### 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.

# City of Beaver Bay

## Information about the City's Net Pension Liability Public Employers Retirement Association

Year Ended December 31, 2023

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- 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 morality 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 morality 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.

# City of Beaver Bay

## Information about the City's Net Pension Liability Public Employers Retirement Association

Year Ended December 31, 2023

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- 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.

# City of Beaver Bay

## Information about the City's Net Pension Liability

### Public Employers Retirement Association

Year Ended December 31, 2023

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#### 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.

## **Other Reports**

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## **Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on and Audit of Financial Statements Performed in Accordance with Government Auditing Standards**

To the Honorable City Council  
City of Beaver Bay  
Beaver Bay, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the comptroller General of the United States of America, the financial statements of the governmental activities, the business-type activities, each major fund, and the remaining fund information of the City of Beaver Bay, Minnesota (City), as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements and have issued our report thereon dated August 16, 2024.

### **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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2023-001 and 2023-004 to be a material weakness.

A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2023-002 and 2023-003 to be significant deficiencies.



## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free of 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 that are required to be reported under *Government Auditing Standards*.

## **City's Response to the Findings**

*Government Auditing Standards* requires the auditor to perform limited procedures on the City's responses to the findings identified in our audit and described in the accompanying schedule of findings and responses. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

## **Purpose of this Report**

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



Wipfli LLP

Duluth, Minnesota

August 16, 2024

## Independent Auditor's Report on Legal Compliance for the State of Minnesota

To the Honorable City Council  
City of Beaver Bay  
Beaver Bay, 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 of America, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Beaver Bay, Minnesota (City), as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated August 16, 2024.

In connection with our audit, nothing came to our attention that caused us to believe that the City of Beaver Bay 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, and miscellaneous provisions sections of the *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City of Beaver Bay'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 "Wipfli LLP". The signature is written in a cursive, flowing style.

Wipfli LLP  
Duluth, Minnesota

August 16, 2024

# City of Beaver Bay

## Schedule of Findings and Responses

Year Ended December 31, 2023

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### Financial Statements Findings

The Council is responsible for establishing and maintaining internal control. This responsibility includes the internal control over the various accounting cycles, the fair presentation of the financial statements and related notes, and the accuracy and completeness of all financial records and related information. The existence of significant deficiencies or material weaknesses may be known to management and may represent a conscious decision by management or those charged with governance to accept that degree of risk because of cost or other considerations. Management is responsible for making decisions concerning costs and the related benefits. The auditors are responsible for communicating significant deficiencies and material weaknesses, regardless of management's decisions.

#### **Item 2023-001 - Significant Audit Adjustments (Material Weakness)**

**Criteria** - The City is responsible for controls over the period-end financial reporting process, including controls over procedures used to enter transaction totals into the general ledger; initiate, record, and process journal entries into the general ledger; and record recurring and nonrecurring adjustments to the financial statements.

**Condition** - During our audit, we proposed material adjustments to convert the City's financial records to the financial statements as reported. In addition, significant adjustments were necessary in the current year to reclassify revenues and expenditures to the proper funds.

**Cause** – The City does not expect, nor does it require, its clerk to have the ability to prepare and record GAAP financial statement adjustments.

**Effect** -The financial records as originally presented for audit were materially misstated.

**Recommendation** – We recommend the Clerk to review the journal entries that we have prepared on an annual basis and determine which ones can be recorded prior to our arrival for audit fieldwork in future years.

**City's response** - The clerk is able to handle the accounting of the day-to-day operations of the City but is not normally trained in accounting principles needed to prepare a year-end general ledger in accordance with accounting standards generally accepted in the United States of America. The City acknowledges and accepts the degree of risk because of cost considerations. The City will continue to have the auditors prepare journal entries to adjust certain accounts at year-end. The City will continue to address training for accounting personnel with the intent of reducing the number of adjusting journal entries.

#### **Item 2023-002 - Lack of Segregation of Duties (Significant Deficiency)**

**Criteria** - The basic premise is that no one employee should have access to both physical assets and the related accounting records or to all phases of a transaction.

**Condition** - Due to a limited number of staff in charge of accounting and reporting functions, a lack of segregation of duties exists over general ledger accounting and cash receipt and disbursement transaction record keeping.

# City of Beaver Bay

## Schedule of Findings and Responses

Year Ended December 31, 2023

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The significant areas that lack proper segregation are:

- Liquor Store cash receipt process - Employees receive cash from customers, enter it into the point-of-sale system, and reconcile the register tape to cash on hand.
- Utility cash receipt process - The administrative assistant creates the monthly utility billing, receives cash payments related to utilities, and prepares the deposit.

**Cause** - Due to a small staff, it is not possible to achieve a full segregation of duties. There is also a lack of compensating controls.

**Effect** - Segregation of duties is a key internal control in an organization's accounting system. Without adequate segregation of duties, the likelihood that unauthorized or false transactions will be prevented or detected in a timely fashion is significantly diminished which may result in misstated financial statements.

**Recommendation** – We recommend that management and those charged with governance continue to evaluate whether to accept the degree of risk associated with this condition because of cost or other considerations.

**City's response** - The size of the City and its staff limits the internal control that the Council can design and implement into the City. The Council will continue to provide oversight of the operations by reviewing all disbursements, the monthly bank reconciliation and monthly financial statements.

### Item 2023-003 - Financial Statement Presentation and Disclosure (Significant Deficiency)

**Criteria** - Controls should be in place to prepare financial statements in accordance with general accepted accounting principles.

**Condition** - As a part of our professional services for the year ended December 31, 2023, Wipfli assisted in drafting the financial statements and related notes. The City does not have sufficient expertise to completely prepare its own financial statements and related notes and relies on Wipfli to provide necessary understanding of current accounting and disclosure principles in the preparation of the financial statements and related notes.

**Cause** – The City does not expect, nor does it require, its clerk to have the ability to prepare GAAP financial statements.

**Effect** - The completeness of the related note disclosures and the accuracy of the overall financial presentation is negatively impacted as outside auditors do not have the same comprehensive understanding of the City as its staff. The potential exists that a misstatement of the financial statement and related notes could occur and not be prevented or detected by the City.

**Recommendation** – We recommend that management and those charged with governance continue to evaluate whether to accept the degree of risk associated with this condition because of cost or other considerations.

**City's response** - The City will continue to rely on outside auditors to assist in drafting the financial statements and related notes.

# City of Beaver Bay

## Schedule of Findings and Responses

Year Ended December 31, 2023

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### Item 2023-004 – Unreconciled Bank Account (Material Weakness)

**Criteria** – The City’s checking account should be reconciled monthly to the cash control statement, and the reconciliation should be reviewed by management or a council member.

**Condition** – The City did not properly reconcile the checking account to the cash control statement from July 2023 through December 2023, which resulted in an audit adjustment to increase cash in the cash control statement by \$2,915.40.

**Cause** – Staff and management around the cash reconciliation process did not realize that the cash control statement maintains a bank statement balance that should agree to the ending monthly checking account balance. This ensures that the bank account is properly reconciled each month.

**Effect** – Without performing timely bank reconciliations, bank transaction errors may go undetected by the City, and the City’s receipt and disbursement ledgers may not accurately reflect all transactions.

**Recommendation** – We recommend that reconciliations be maintained monthly and that management and those charged with governance continue to monitor and review this process.

**City’s response** - The City now has a better understanding of how the cash control statement reconciles to the checking account. Moving forward, a reconciliation will be properly maintained and reviewed on a monthly basis.

# City of Beaver Bay

## Schedule of Prior Year Findings and Responses

Year Ended December 31, 2023

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### **Item 2022-001 - Significant Audit Adjustments**

This finding has been repeated in 2023 as Item 2023-001.

### **Item 2022-002 - Lack of Segregation of Duties**

This finding has been repeated in 2023 as Item 2023-002.

### **Item 2022-003 - Financial Statement Presentation and Disclosure**

This finding has been repeated in 2023 as Item 2023-003.