

Kinner & Company Ltd
Certified Public Accountants

Honorable Mayor and Members of Council
City of Balaton

At the conclusion of our audit we communicated to you our significant findings and other communication required with those charged with governance.

We have also supplied to you our recommended year-end adjusting journal entries. These are the adjustments that must be made in order for your accounting system to be in agreement with the year-end audit. Please review the adjustments and if they meet with your approval, post them to your accounting system for the year ended December 31, 2023. After posting the adjustments, please send us an updated balance sheet.

Please review all enclosed documents, sign below and return this form to us.

Thank you,

Kinner + Company Ltd.

Kinner & Company Ltd
Tracy, Minnesota
April 8, 2024

Enclosures

We have reviewed and approved the preceding items.

Kim Wall

Kimberly Wall
Clerk



Kinner & Company Ltd
Certified Public Accountants

City of Balaton
Attn: Kimberly Wall
134 3rd Street
Balaton, MN 56115

Dear Kim:

Enclosed is a draft of your audit report and a representation letter from you to our firm. Please complete the lower portion of this page, read and sign the representation letter, and return both of them to our office.

We will prepare and forward bound copies of your audit report when we receive your approval.

If you have any questions, please call us at 507-629-3662.

It was a pleasure working with you and we look forward to working with you again in the future.

Sincerely,

Kinner + Company Ltd.

Kinner & Company Ltd
Certified Public Accountants

Enclosures

Approval or Changes needed:

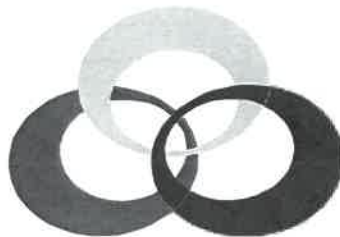
I have read the draft of the Audit Report and approve it for binding. We will require _____ copies of the Audit Report.

I would like to have an exit interview with the accountants to discuss the financial statements in greater detail.

I have comments or concerns regarding the presentation of the following items in the Audit Report as described below (attach additional sheets if necessary):

X Kimberly Wall

Kimberly Wall



Kinner & Company Ltd
Certified Public Accountants

Honorable Mayor and Members of Council
City of Balaton

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We have also supplied to you our recommended year-end adjusting journal entries. These are the adjustments that must be made in order for your accounting system to be in agreement with the year-end audit. Please review the adjustments and if they meet with your approval, post them to your accounting system for the year ended December 31, 2023. After posting the adjustments, please send us an updated balance sheet.

Please review all enclosed documents, sign below and return this form to us.

Thank you,

Kinner + Company Ltd.

Kinner & Company Ltd
Tracy, Minnesota
April 8, 2024

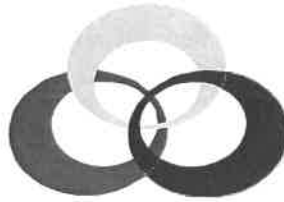
Enclosures

We have reviewed and approved the preceding items.

X

Kimberly Wall

Kimberly Wall
Clerk



Kinner & Company Ltd
Certified Public Accountants

MANAGEMENT LETTER

To the Council and Mayor
of the City of Balaton

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Balaton, Minnesota for the year ended December 31, 2023 we considered the City's internal control as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion 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.

However, during our audit we became aware of the following opportunity for strengthening internal controls and operating efficiency. The comments and suggestions are summarized below. This letter does not affect our report dated April 8, 2024, on the financial statements of the City of Balaton, Minnesota.

COMMENTS AND SUGGESTIONS

- The city council formally adopted a fund balance policy for the general fund. The Office of the State Auditor recommends maintain at least 3-6 months of unassigned fund balance. The City's formal policy is to maintain a minimum unassigned fund balance between the range of 35%-50% of the budgeted operating expenses for the next year. At December 31, 2023 the unassigned balance was 37% of the subsequent years budgeted expenses. This was the first time you have maintained the minimum unassigned fund balance since 2018.
- The Office of the State Auditor recommend the departments, including fire and ambulance prepare a capital outlay schedule for the next 5-10 years for replacement. If this is not completed for 2023, a finding will exist on the audit report for 2023. This had been done in the past, but with turnover of employees and department heads, this has not been done the last few years. This is an excellent tool for budgeting new equipment and improvements that are coming in the next few years.
- At December 31, 2023 there was \$62,242 of ambulance accounts receivable. The RCB collection agency balance is \$29,642. \$12,404 of the \$62,242 balance may be written off by council approval, if that is needed if the new billing department can not collect. The accounting office has changed billing departments to Metro billing.

- The Council should review balances due for deficit pooled cash and make a plan for repayment or consider writing off these amounts.
- The accounting department should request the Small Cities Deed grant activity from Kristie at DSI to enter into Banyon quarterly. Copies of the drawdowns should also be maintained by the City and reviewed by council or mayor.
- There should be no cashing of third party checks at the liquor store.
- There was a tax abatement check sent out to a resident that was denied.
- There should be a schedule of tax abatement for each resident that was approved and a signed document. This approval should be in the minutes.
- The accounting department needs to keep track of all committed funds for capital outlay and those amounts need to be approved at a council meeting to record as committed fund balance.
- A review of the receipt book comparing to the actual cash deposited to the bank showed immaterial variances at the end of the year. This is a reminder to make sure that the receipt is filled out properly, check or cash.
- The accounting office should prepare an accounting manual for their duties so if someone is absent that the other one can perform those duties. The clerk and deputy clerk should prepare a listing of duties that they perform on a regular basis. This will show if some of the duties should be segregated to the other due to full time and part time hours.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with the City Clerk, and we will be pleased to discuss them in further detail at your convenience.

Sincerely,

Kinner + Company Ltd.

Kinner & Company Ltd
April 8, 2024

**CITY OF BALATON
134 THIRD STREET
BALATON, MN 56115**

Kinner & Company Ltd
Certified Public Accountants
212 3rd Street, Suite 1
Tracy, MN 56175

This representation letter is provided in connection with your audit of the financial statements of the City of Balaton, which comprise the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information as of December 31, 2023, and the respective changes in financial position and, where applicable, cash flows for the year then ended, and the related notes to the financial statements, for the purpose of expressing opinions as to whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, as of April 7, 2024, the following representations made to you during your audit.

Financial Statements

- 1) We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated January 2, 2024, including our responsibility for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP and for preparation of the supplementary information in accordance with the applicable criteria.
- 2) The financial statements referred to above are fairly presented in conformity with U.S. generally accepted accounting principles and include all properly classified funds and other financial information of the primary government required by generally accepted accounting principles to be included in the financial reporting entity.

- 3) We acknowledge our responsibility 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.
- 4) We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
- 5) Significant assumptions we used in making accounting estimates, including those measured in fair value, are reasonable.
- 6) Related party relationships and transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.
- 7) All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed. No events, including instances of noncompliance, have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements (or in the schedule of prior and current findings and responses).
- 8) The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements for each opinion unit. A list of the uncorrected misstatements is attached to the representation letter.
- 9) The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in accordance with U.S. GAAP.
- 10) Guarantees, whether written or oral, under which the City is contingently liable, if any, have been properly recorded or disclosed.

Information Provided

- 11) We have provided you with:
 - a) Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters (and all audit or relevant monitoring reports, if any, received from funding sources).
 - b) Additional information that you have requested from us for the purpose of the audit.

- c) Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
 - d) Minutes of the meetings of City Council or summaries of actions of recent meetings for which minutes have not yet been prepared.
- 12) All material transactions have been recorded in the accounting records and are reflected in the financial statements.
- 13) We have disclosed to you the results of our assessment of that risk that the financial statements may be materially misstated as a result of fraud.
- 14) We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
- a) Management
 - b) Employees who have significant roles in internal control, or
 - c) Others where the fraud could have a material effect on the financial statements.
- 15) We have no knowledge of any allegations of fraud or suspected fraud affecting the entity's financial statements communicated by employees, regulators, or others.
- 16) We have disclosed to you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements.
- 17) We have disclosed to you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements.
- 18) We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.

Government-specific

- 19) There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
- 20) We have taken timely and appropriate steps to remedy fraud, noncompliance with provisions of laws, regulations, contracts and grant agreements, or abuse that you have reported to us.
- 21) We have a process to track the status of audit findings and recommendations.
- 22) We have identified to you any previous audits, attestation engagements, or other studies related to the audit objectives and whether related recommendations have been implemented.
- 23) We have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for the report.
- 24) The City has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.
- 25) We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts; and we have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds.
- 26) There are no violations, or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting approving and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording loss contingency, or for reporting on noncompliance.
- 27) As part of your audit, you assisted with preparation of the financial statements and related notes. We have designated an individual with suitable skill, knowledge, or experience to oversee your services and have made all management decisions and performed all management functions. We have reviewed, approved, and accepted responsibility for those financial statements and related notes.

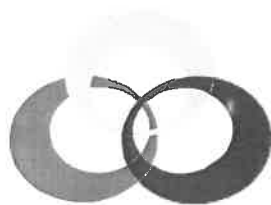
- 28) The City has satisfactory title to all owned assets and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
- 29) The City has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
- 30) We have followed all applicable laws and regulations in adopting, approving, and amending budgets.
- 31) The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint venture and other related organizations.
- 32) The financial statements properly classify all funds and activities.
- 33) All funds that meet the quantitative criteria in GASB Statement Nos. 34 and 37 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.
- 34) Components of net position (net investment in capital assets; restricted; and unrestricted) and equity amounts are properly classified and, if applicable, approved.
- 35) Investments, derivative instruments, and land and other real estate held by endowments are properly valued.
- 36) Provisions for uncollectible receivables have been properly identified and recorded.
- 37) Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
- 38) Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
- 39) Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
- 40) Deposits and investment securities and derivative instruments are properly classified as to risk and are properly disclosed.
- 41) Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated.

- 42) The government meets the GASB-established requirements for accounting for eligible infrastructure assets using the modified approach.
- 43) We believe that the actuarial assumptions and methods used to measure pension liabilities and costs for financial accounting purposes are appropriate in the circumstances.
- 44) We have appropriately disclosed the City's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available and have determined that the net position was properly recognized under the policy.
- 45) We are following our established accounting policy regarding which resources (that is, restricted, committed, assigned, or unassigned) are considered to be spent first for expenditures for which more than one resource classification is available. That policy determines the fund balance classifications for financial reporting purposes.
- 46) We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.
- 47) We have identified to you any investigations or legal proceedings that have been initiated with respect to the period under audit.
- 48) With respect to the combining statements:
- a. We acknowledge our responsibility for presenting the combining statements in accordance with accounting principles generally accepted in the United States of America, and we believe the combining statements, including their form and content, are fairly presented in accordance with accounting principles generally accepted in the United States of America. The methods of measurement and presentation of the combining statements have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information.

X 

Kimberly Wall, Clerk-Treasurer

CITY OF BALATON
BALATON, MINNESOTA 56115
ANNUAL FINANCIAL REPORT
DECEMBER 31, 2023



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

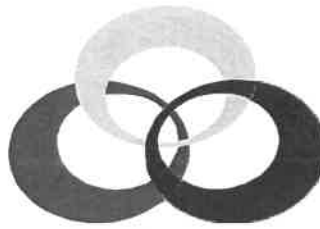
City of Balaton

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FINANCIAL SECTION



Kinner & Company Ltd
Certified Public Accountants
INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members of the Council
City of Balaton
Balaton, Minnesota 56115

Qualified and Unmodified Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Balaton, Minnesota, as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the City of Balaton, Minnesota's basic financial statements as listed in the table of contents.

Qualified Opinion on the Governmental Activities

In our opinion, except for the effects of the matter described in the Basis for Qualified and Unmodified Opinions on section of our report, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the City of Balaton, Minnesota as of December 31, 2023, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions on Business-type Activities, Each Major Fund and the Aggregate Remaining Fund Information

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, each major fund and the aggregate remaining fund information of the City of Balaton, 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, EDA and Fire funds for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Qualified and Unmodified Opinions

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

Matter Giving Rise to the Qualified Opinion on the Governmental Activities

The volunteer fire relief association affiliated with the City has not complied with the GASB standards relating to pensions for 2023. Therefore, the City is unable to report pension amounts related to the relief association in the government-wide governmental activities. The effects on the accompanying financial statements of the noncompliance have not been determined.

212 3rd Street, Tracy, MN 56175
507-629-3662, fax 507-629-3446
Visit our website at www.kinner.co

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with generally accepted auditing standards 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 of Balaton, Minnesota's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Balaton, Minnesota's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

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

Supplementary Information

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

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 8, 2024, on our consideration of the City of Balaton's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Balaton's internal control over financial reporting and compliance.

Kinner + Company Ltd.

Kinner & Company Ltd
Certified Public Accountants

April 8, 2024

CITY OF BALATON

MANAGEMENT'S DISCUSSION & ANALYSIS

DECEMBER 31, 2023 AND 2022

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. 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. The remaining statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

REPORTING THE CITY AS A WHOLE

Our analysis of "the City as a whole" begins on page 5. 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 liabilities 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 therein. You can think of the City's net position, the difference between assets and liabilities, as one way to measure the City's financial health, or financial position. Over time, increases and 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 non-financial factors, however, such as changes in the City's property tax base and the condition of the City's roads, to assess the overall health of the City.

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 the fire, public works, parks and general administration. Property taxes and State and Federal 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, sewer and garbage are reported here.

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS

The fund financial statements begin on page 12 and 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.

CITY OF BALATON
MANAGEMENT'S DISCUSSION & ANALYSIS
DECEMBER 31, 2023 AND 2022

- **Governmental Funds** - Most of the City's basic services are reported in the governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are 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 governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental 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 reconciliation at the bottom of the fund financial statements.
- **Proprietary Funds** - When the City charges customers for the services it provides these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, the City's enterprise funds are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds.

THE CITY AS A WHOLE

The City's combined net position increased \$581,461 in 2023 and increased \$422,526 in 2022. Our analysis below focuses on the net position (Table 1) and changes in net position (Table 2) of the City's governmental and business-type activities.

Table 1

Net Position	Governmental Activities		Business-Type Activities		Total
	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>	<u>2023</u>
Current and other assets	1,411,746	1,513,455	667,040	1,061,655	2,078,786
Capital assets	<u>2,238,769</u>	<u>2,314,380</u>	<u>1,249,842</u>	<u>875,696</u>	<u>3,488,611</u>
Total assets	<u>3,650,515</u>	<u>3,827,835</u>	<u>1,916,882</u>	<u>1,937,351</u>	<u>5,567,397</u>
Deferred Outflows of Resources	<u>35,694</u>	<u>57,907</u>	<u>23,796</u>	<u>23,788</u>	<u>59,490</u>
Long-term liabilities outstanding	2,122,424	2,360,864	402,776	264,217	2,525,200
Other liabilities	<u>214,156</u>	<u>275,288</u>	<u>34,115</u>	<u>50,603</u>	<u>248,271</u>
Total liabilities	<u>2,336,580</u>	<u>2,636,152</u>	<u>436,891</u>	<u>314,820</u>	<u>2,773,471</u>
Deferred Inflows of Resources	<u>39,675</u>	<u>2,500</u>	<u>26,451</u>	<u>1,667</u>	<u>66,126</u>
Restricted	164,854	213,624			164,854
Net investment in capital assets	737,575	572,760	945,842	709,696	1,683,417
Net position-Unrestricted	<u>592,834</u>	<u>460,706</u>	<u>1,046,908</u>	<u>949,772</u>	<u>1,639,742</u>
	<u>1,495,263</u>	<u>1,247,090</u>	<u>1,992,750</u>	<u>1,659,468</u>	<u>3,488,013</u>

At the end of the current fiscal year, the City is able to report positive balances for governmental and business type activities for the city as a whole.

CITY OF BALATON
MANAGEMENT'S DISCUSSION & ANALYSIS
DECEMBER 31, 2023 AND 2022

Table 2

Changes in Net position	Governmental Activities		Business-Type Activities		Total
	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>	<u>2023</u>
Revenues					
Program Revenues					
Charges for services	294,735	296,176	595,486	485,321	890,221
Operating Grants and contributions	107,817	159,957	-	35	107,817
Capital grants and contributions	30,521	93,901	176,100	-	30,521
General Revenues					
Property taxes	627,793	571,312			627,793
Special Assessments(Forfeited)	(304)	558	610	1,107	306
Intergovernmental Revenue	244,249	242,547	-	-	244,249
Installment Proceeds	-	12,000	-	-	-
Gain (Loss) on Sale of Asset	(4,099)	26,782	-	23,688	(4,099)
Unrestricted Investment Earnings	9,693	1,719	3,204	463	12,897
Miscellaneous	5,486	65,115	11,321	5,152	16,807
Total Revenues	<u>1,315,891</u>	<u>1,470,067</u>	<u>786,721</u>	<u>515,766</u>	<u>2,102,612</u>
Expenses					
General Administrative	159,322	120,370			159,322
Public Safety	286,073	292,313			286,073
Public Works	194,504	190,470			194,504
Culture & Recreation	93,003	93,764			93,003
Housing & Economic Development	118,894	149,042			118,894
Miscellaneous	165,403	251,203			165,403
Interest on Long-Term Debt	50,521	59,469			50,521
Liquor			150,848	136,331	150,848
Water			149,188	120,898	149,188
Sewer			90,723	92,976	90,723
Garbage			62,672	56,471	62,672
Total expenses	<u>1,067,720</u>	<u>1,156,631</u>	<u>453,431</u>	<u>406,676</u>	<u>1,521,151</u>
Transfers	2	-	(2)	-	-
Increase (Decrease) in net position	248,173	313,435	333,288	109,091	581,461
Net position, January 1	<u>1,247,090</u>	<u>933,655</u>	<u>1,659,462</u>	<u>1,550,371</u>	<u>2,906,552</u>
Net position, December 31	<u>1,495,263</u>	<u>1,247,090</u>	<u>1,992,750</u>	<u>1,659,462</u>	<u>3,488,013</u>

CITY OF BALATON
MANAGEMENT’S DISCUSSION & ANALYSIS
DECEMBER 31, 2023 AND 2022

Governmental Activities

In 2023 and 2022 revenue for the City’s governmental activities decreased by 10 percent and increased by 21 percent, while total expenses decreased by 8 percent in 2023 and increased by 20 percent in 2022. The decrease in revenue was mainly due to grant revenues. The decrease in expense was mainly due to less capital outlay.

Table 3 presents the cost of each of the City’s programs- general government, public safety, public works, culture and recreation, economic development, housing rehabilitation, and miscellaneous programs. Activities were generally comparable to the prior year as operations remained consistent with the prior year but had less care center expenses and less EDA expenses.

Table 3

	Total Cost of Services	
	<u>2023</u>	<u>2022</u>
General Administrative	159,322	120,370
Public Safety	286,073	292,313
Public Works	194,504	190,470
Culture & Recreation	93,003	93,764
Housing & Economic Development	118,894	149,042
Miscellaneous	165,403	251,203
Interest on Long-Term Debt	50,521	59,469
Total	1,067,720	1,156,631

Business-Type Activities

2023 and 2022 revenues of the City’s business-type activities (see table 2) increased by 52 percent and 7 percent in 2022. Revenue increased due to capital grants and utility rate increases. Expenses increased 11 percent in 2023 and increased 2 percent in 2022 due to more cost of services and water tower project

THE CITY’S FUNDS

As the City completed 2023 and 2022, its governmental funds reported a combined fund balance of \$874,690 and \$781,434. The increase is due to more revenues than expected and less expenses.

The City maintains four major governmental funds, General, Fire, EDA, and Debt Service.

The General Fund balance increased \$57,729 to \$280,452. The increase was mainly due to more revenues and less expenses than budgeted.

The Fire Fund balance increased \$5,856 to \$156,716. The increase was mainly due to transfer from general fund.

The EDA Fund balance decreased \$2,121 to (\$25,887). The decrease is mainly due to the capital expenditures for Lakeview Senior Housing and lot buy back.

**CITY OF BALATON
MANAGEMENT'S DISCUSSION & ANALYSIS
DECEMBER 31, 2023 AND 2022**

Debt Service Fund balance decreased \$3,936 to \$258,134. The decrease is mainly due to less property tax revenues.

The non-major governmental funds include the Ambulance and SCDG funds increased by \$35,725 to \$205,275. This increase was mainly due the new DEED Small cities grant and the ambulance receiving Public Safety funds that have not been spent yet.

General Fund Budgetary Highlights:

The City council did not amend its original budget during the current year. General Fund revenues were \$61,348 higher than budget for 2023. Expenditures were \$7,908 lower than budget for 2023. Revenues are higher due to insurance proceeds and donations. Expenses are lower due to care center expenses decreasing because of sale in 2024.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

In 2023, the City had \$8,258,645 invested in a broad range of capital assets and \$7,704,449 in 2022 resulting in a 8 percent increase.

Capital Assets at Year End

	Governmental Activities		Business-Type Activities	
	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
Land	773,538	758,538	2,000	2,000
Construction in Progress	-	-	8,435	5,714
Buildings & Improvements	273,074	273,074	1,810,194	1,397,382
Machinery & Equipment	3,973,864	3,879,542	1,417,540	1,388,200
Totals	<u>5,020,476</u>	<u>4,911,154</u>	<u>3,238,169</u>	<u>2,793,296</u>

More detailed information about the City's capital assets is presented in Note 1 and Note 3.

Debt

As shown in Table 5, the City has \$1,805,193 in debt for 2023 for a decrease of 6 percent versus \$1,907,621.

Debt at Year End

	Governmental Activities		Business-Type Activities	
	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
Notes/Lease Payable	151,823	230,245	-	-
GO Bonds	<u>1,349,370</u>	<u>1,511,376</u>	<u>304,000</u>	<u>166,000</u>
Totals	<u>1,501,193</u>	<u>1,741,621</u>	<u>304,000</u>	<u>166,000</u>

**CITY OF BALATON
MANAGEMENT'S DISCUSSION & ANALYSIS
DECEMBER 31, 2023 AND 2022**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

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

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report, individual financial statements, or requests for additional financial information should be addressed to the City Clerk, City of Balaton, 134 3rd Street, Balaton, MN 56115.

BASIC FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

Fund Financial Statements:

Governmental Funds

Proprietary (Enterprise) Funds

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

City of Balaton
Statement of Net Position
December 31, 2023

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
<i>Current Assets</i>			
Cash and Cash Equivalents	\$ 1,280,832	\$ 631,158	\$ 1,911,990
Accounts Receivable	71,741	4,321	76,062
Taxes Receivable	40,000	--	40,000
Special Assessments Receivable	527	1,580	2,107
Notes Receivable- Current Portion	2,004	--	2,004
Inventory	--	28,523	28,523
Prepays	--	1,458	1,458
Due from Other Governments	14,185	--	14,185
Total Current Assets	1,409,289	667,040	2,076,329
<i>Noncurrent Assets</i>			
Notes Receivable	2,457	--	2,457
Non-Depreciable	773,538	10,435	783,973
Depreciable, net	1,465,231	1,239,407	2,704,638
<i>Internal Balances*</i>	185,309	515,414	--
Total Assets	3,835,824	2,432,296	5,567,397
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Pension Resources	35,694	23,796	59,490
Total Deferred Outflows of Resources	35,694	23,796	59,490
LIABILITIES			
<i>Current Liabilities</i>			
Accounts Payable	2,842	9,332	12,174
Accrued Wages and Benefits	3,126	3,522	6,648
Current Portion Lease Payable	22,871	--	22,871
Unearned Revenue	--	333	333
Current Portion of Long-Term Debt	168,562	19,000	187,562
Accrued Interest Payable	12,755	1,928	14,683
Current Conditional Contract Agreement	4,000	--	4,000
<i>Internal Balances*</i>	--	--	--
Total Current Liabilities	214,156	34,115	248,271
<i>Noncurrent Liabilities</i>			
Non-Current Portion Long-Term Debt	124,952	--	124,952
Non-Current Portion Lease Payable	1,180,809	285,000	1,465,809
Net Pension Liability	127,496	84,997	212,493
Compensated Absences	6,799	14,424	21,223
<i>Internal Balances*</i>	682,368	18,355	--
Total Liabilities	2,336,580	436,891	2,072,748
DEFERRED INFLOWS OF RESOURCES			
Deferred Pension Resources	39,675	26,451	66,126
Total Deferred Inflows of Resources	39,675	26,451	66,126
NET POSITION			
Net Investment in Capital Assets	737,575	945,842	1,683,417
Restricted	164,854	--	164,854
Unrestricted	592,834	1,046,908	1,639,742
Total Net Position	\$ 1,495,263	\$ 1,992,750	\$ 3,488,013

increase from 2022 ☺

decrease from 2022 ☺
177K

increased from 2022
581K

* Amounts have been eliminated in total column

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

City of Balaton
Balance Sheet
Governmental Funds
December 31, 2023

	Special Revenue		Debt Service		
	Fire	EDA	Debt Service	Non Major Governmental Funds	Total Governmental Funds
ASSETS					
Cash and Cash Equivalents	\$ 833,643	\$ 148,704	\$ 99,921	\$ 70,418	\$ 1,280,832
Accounts Receivable	--	8,600	--	63,141	71,741
Taxes Receivable	30,282	--	9,718	--	40,000
Special Assessments Receivable	527	--	--	--	527
Notes Receivable- Current Portion	--	--	--	2,004	2,004
Due from Other Governments	--	--	--	14,185	14,185
Notes Receivable	--	--	--	2,457	2,457
Advances to other Funds	--	--	185,309	--	185,309
Total Assets	864,452	157,304	99,921	209,933	1,597,055
DEFERRED OUTFLOWS OF RESOURCES					
Aggregated deferred outflows	--	--	--	--	--
Total Assets and Deferred Outflows of Resources	\$ 864,452	\$ 157,304	\$ 99,921	\$ 209,933	\$ 1,597,055
LIABILITIES					
Accounts Payable	\$ 2,057	\$ 588	\$ --	\$ 197	\$ 2,842
Accrued Wages and Benefits	3,126	--	--	--	3,126
Due to Other Funds	556,560	--	125,808	--	682,368
Total Liabilities	561,743	588	125,808	197	688,336
DEFERRED INFLOWS OF RESOURCES					
Unearned Revenue Property Taxes	22,257	--	7,311	--	29,568
Unearned Revenue Notes Receivable	--	--	--	4,461	4,461
Total Liabilities and Deferred Inflows of Resources	584,000	588	125,808	4,658	722,365
FUND BALANCE					
Restricted	--	12,910	--	258,134	283,954
Committed	18,891	10,367	0	--	29,258
Assigned	--	133,439	--	192,365	325,804
Unassigned	261,561	(25,887)	0	--	235,674
Total Fund Balance	280,452	156,716	(25,887)	205,275	874,690
Total Liabilities, Deferred Inflows of Resources and Fund Balance	\$ 864,452	\$ 157,304	\$ 99,921	\$ 209,933	\$ 1,597,055

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

City of Balaton
Statement of Activities
For the Year Ended December 31, 2023

Functions/Programs	Program Revenues				Net (Expense) Revenue		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary Government							
Governmental Activities:							
General Government	\$ 159,322	\$ 1,800	\$ 961	\$ --	\$ (156,561)	\$ --	\$ (156,561)
Public Safety	286,073	130,601	106,856	--	(48,716)	--	(48,716)
Public Works	194,504	--	--	--	(194,504)	--	(194,504)
Culture and Recreation	93,003	72,400	--	30,521	9,918	--	9,918
Housing and Economic Development	118,894	89,934	--	--	(28,960)	--	(28,960)
Interest on Long Term Debt	50,521	--	--	--	(50,521)	--	(50,521)
Miscellaneous	48,822	--	--	--	(48,822)	--	(48,822)
Care Center	116,581	--	--	--	(116,581)	--	(116,581)
Total Governmental Activities	1,067,720	294,735	107,817	30,521	(659,322)	--	(659,322)
Business-type Activities:							
Water	149,188	221,073	--	176,100	--	247,985	247,985
Sewer	90,723	166,648	--	--	--	75,925	75,925
Garbage	62,672	60,623	--	--	--	(2,049)	(2,049)
Liquor	150,848	147,142	--	--	--	(3,706)	(3,706)
Total Business-type Activities	453,431	595,486	--	176,100	--	318,155	318,155
Total Primary Government	\$ 1,521,151	\$ 890,221	\$ 82,181	\$ 207,582	\$ (659,322)	\$ 318,155	\$ (341,167)
General Purpose Revenues and Transfers:							
Revenues							
Property Taxes					627,793	--	627,793
Special Assessments(Forfeited)					(304)	610	306
Intergovernmental Revenues					244,249	--	244,249
Refunds and Reimbursements					4,410	6,620	11,030
Interest Revenue					9,693	3,204	12,897
Miscellaneous					26	4,701	4,727
Donations					1,050	--	1,050
Gain/(Loss) on disposal of asset					(4,099)	--	(4,099)
Transfers					2	(2)	--
Total General Revenues and Transfers					879,820	15,133	894,953
Change in Net Position					248,173	333,288	581,461
Net Position at Beginning of Period					1,247,090	1,659,462	2,906,552
Net Position at End of Period					\$ 1,495,263	\$ 1,992,750	\$ 3,488,013

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

City of Balaton
Reconciliation of Governmental Funds Balance Sheet
to the Statement of Net Position
December 31, 2023

Total Fund Balance - Governmental Funds	\$	874,690
Accrued interest payable is accrued on Statement of Net Position and expensed on the Statement of Activities. Interest is expensed on a cash basis on the Statement of Revenues, Expenditures, and Changes in Fund Balance.		(12,755)
Compensated absences expensed as paid in governmental fund statements, expensed as incurred in entity wide statements, and reflected as liability on Statement of Net Position.		(6,799)
Receivables to be collected, but not available soon enough to pay for the current period's expenditures, and therefore are reported as deferred inflows.		34,029
Fixed assets are capitalized in the Statement of Net Position and depreciated in the Statement of Activities. These are expensed when acquired in the Statement of Revenues, Expenditures, and Changes in Fund Balance.		2,238,769
Long- term debt reflected on Statement of Net Position not in governmental funds balance sheet.		(1,501,191)
Net pension liability is not due and payable in the current period from current financial resources, and therefore are not reported in the funds.		(127,496)
Pension related deferred inflows are not due and payable in the current period from current financial resources, and therefore are not reported in funds.		(39,675)
Pension related deferred outflows are not available to pay for current period expenditures and therefore are deferred in the funds.		35,694
Total Net Position-Governmental Funds	\$	<u>1,495,263</u>

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

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

	<u>Special Revenue</u>			<u>Debt Service</u>	<u>Non Major Governmental Funds</u>	<u>Total Governmental Funds</u>
	<u>General</u>	<u>Fire</u>	<u>EDA</u>	<u>Debt Service</u>		
Revenues						
Property Taxes	\$ 478,766	\$ --	\$ --	\$ 140,162	\$ --	\$ 618,928
Special Assessments (forfeited)	(304)	--	--	--	--	(304)
License and Permits	1,800	--	--	--	--	1,800
Intergovernmental Revenues	244,249	--	--	--	--	244,249
Other Grants	961	--	--	--	--	961
Fines and Forfeits	275	--	--	--	--	275
Refunds and Reimbursements	40,185	3,626	459	--	325	44,595
Charges for Services	28,987	46,849	89,934	--	70,842	236,612
Interest Revenue	6,495	--	550	--	2,648	9,693
Miscellaneous	2,959	22	--	--	4,230	7,211
Donations	30,521	49,100	1,000	--	50	80,671
Federal Grants	--	--	--	--	24,675	24,675
State Grants and Aids	--	33,081	--	--	12,910	45,991
Total Revenues	<u>834,894</u>	<u>132,678</u>	<u>91,943</u>	<u>140,162</u>	<u>115,680</u>	<u>1,315,357</u>
Expenditures						
General Government	147,328		--	--	--	147,328
Public Safety	75,182	67,773	--	--	63,086	206,041
Public Works	156,154	--	--	--	--	156,154
Culture and Recreation	71,405	--	45,158	--	--	116,563
Housing and Economic Development	--	--	--	--	29,069	29,069
Care Center	116,581	--	--	--	--	116,581
Miscellaneous	23,623		-	2,930	--	26,553
Interest on Long Term Debt	1,567	6,191	19,895	23,168	--	50,821
Principal Payments	56,238	22,145	44,005	118,000	--	240,388
Capital Outlay	47,279	60,713	25,006	--	--	132,998
Total Expenditures	<u>695,357</u>	<u>156,822</u>	<u>134,064</u>	<u>144,098</u>	<u>92,155</u>	<u>1,222,496</u>
Excess of Revenues Over (Under) Expenditures	<u>139,537</u>	<u>(24,144)</u>	<u>(42,121)</u>	<u>(3,936)</u>	<u>23,525</u>	<u>92,861</u>
Other Financing Sources (Uses)						
Gain/(Loss) on disposal of asset	390	--	--	--	--	390
Transfers from other funds	2	30,000	40,000	--	12,200	82,202
Transfers to other funds	(82,200)	--	--	--	--	(82,200)
Net Other Financing Sources (Uses)	<u>(81,808)</u>	<u>30,000</u>	<u>40,000</u>	<u>--</u>	<u>12,200</u>	<u>392</u>
Net Change in Fund Balance	<u>57,729</u>	<u>5,856</u>	<u>(2,121)</u>	<u>(3,936)</u>	<u>35,725</u>	<u>93,253</u>
Fund Balance at Beginning of Period	<u>222,723</u>	<u>150,860</u>	<u>(23,766)</u>	<u>262,070</u>	<u>169,550</u>	<u>781,437</u>
Fund Balance at End of Period	<u>\$ 280,452</u>	<u>\$ 156,716</u>	<u>\$ (25,887)</u>	<u>\$ 258,134</u>	<u>\$ 205,275</u>	<u>\$ 874,690</u>

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

City of Balaton
Reconciliation of Governmental Funds Statement of Revenues, Expenditures, and
Changes in Fund Balance with Statement of Activities
For the Year Ended December 31, 2023

Total Net Change in Fund Balances - Governmental Funds	\$ 93,253
Accrued leave is reported in the government-wide statement of activities and changes in net position, but does not require the use of current financial resources; therefore, accrued leave is not reported as an expenditure in the government funds.	(5,462)
Fixed assets expensed as capital outlay in governmental fund statements, capitalized as fixed assets in Statement of Net Position.	132,998
Principal payments on long-term expensed in governmental fund statements, treated as reductions of outstanding debt in Entity wide statements.	240,388
Revenues that will not be collected for several months after the City's year end are not considered available revenues in the governmental funds, and are instead considered deferred inflows.	4,636
Depreciation expense reflected in entity wide statements, not reflected in governmental fund statements.	(204,090)
Accrued interest expense included in Statement of Activities, expensed as paid in governmental fund statements.	2,000
The net effect of various transactions involving capital assets (i.e. Sales, trade-ins, and contributions) is to increase net position.	(4,489)
In the Statement of Activities, the cost of pension benefits earned net of employee contributions is reported as an element of pension expense. The fund financial statements report pension contributions as expenditures.	(11,056)
Changes in Net Position-Governmental Funds	<u>\$ 248,173</u>

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

**City of Balaton
Statement of Net Position
Proprietary Funds
December 31, 2023**

	Business-type Activities - Enterprise Funds				Total Enterprise Funds
	Water	Sewer	Liquor	Non Major Garbage	
ASSETS					
<i>Current Assets</i>					
Cash and Cash Equivalents	\$ 74,035	\$ 410,526	\$ 103,682	\$ 42,915	\$ 631,158
Accounts Receivable	1,803	1,523	--	995	4,321
Special Assessments Receivable	682	614	--	284	1,580
Inventory	--	--	28,523	--	28,523
Prepays	--	--	1,458	--	1,458
Total Current Assets	76,520	412,663	133,663	44,194	667,040
<i>Noncurrent Assets</i>					
Non-Depreciable	4,057	4,378	2,000	--	10,435
Depreciable, net	777,070	440,747	21,590	--	1,239,407
Advances to other Funds	--	515,414	--	--	515,414
Total Assets	857,647	1,373,202	157,253	44,194	2,432,296
DEFERRED OUTFLOWS OF RESOURCES					
Deferred Pension Resources	4,760	4,202	13,645	1,189	23,796
Total Deferred Outflows of Resources	4,760	4,202	13,645	1,189	23,796
LIABILITIES					
<i>Current Liabilities</i>					
Accounts Payable	306	1	4,046	4,979	9,332
Accrued Wages and Benefits	684	241	2,454	143	3,522
Unearned Revenue	333	--	--	--	333
Current Portion of Long-Term Debt	19,000	--	--	--	19,000
Accrued Interest Payable	1,928	--	--	--	1,928
Total Current Liabilities	22,251	242	6,500	5,122	34,115
<i>Noncurrent Liabilities</i>					
Non-Current Portion Lease Payable	285,000	--	--	--	285,000
Net Pension Liability	16,999	14,875	48,873	4,250	84,997
Compensated Absences	1,911	1,506	10,855	152	14,424
Due to Other Funds	18,355	--	--	--	18,355
Total Liabilities	344,516	16,623	66,228	9,524	436,891
DEFERRED INFLOWS OF RESOURCES					
Deferred Pension Resources	5,290	4,629	15,209	1,323	26,451
Total Deferred Inflows of Resources	5,290	4,629	15,209	1,323	26,451
NET POSITION					
Net Investment in Capital Assets	477,127	445,125	23,590	-	945,842
<i>Unrestricted</i>	35,474	911,027	65,871	34,536	1,277,452
Total Net Position	\$ 512,601	\$ 1,356,152	\$ 89,461	\$ 34,536	\$ 1,992,750

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

City of Balaton
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the Year Ended December 31, 2023

	Business-type Activities - Enterprise Funds				Total Enterprise Funds
	Water	Sewer	Liquor	Non Major Garbage	
Operating Revenues					
Charges for Services	\$ 221,073	\$ 166,648	\$ 452,529	\$ 60,623	\$ 900,873
Cost of Sales	--	--	(266,344)	--	(266,344)
Sales Tax	--	--	(39,043)	--	(39,043)
Total Operating Revenues	221,073	166,648	147,142	60,623	595,486
Operating Expenses					
Salaries	33,818	27,730	88,203	10,038	159,789
Payroll Taxes & Benefits	6,681	5,096	20,450	1,743	33,970
Utilities and Telephone	23,465	10,081	16,499	--	50,045
Insurance	6,539	5,541	16,135	--	28,215
Materials and Supplies	8,833	2,893	--	2,037	13,763
Repairs and Maintenance	12,662	6,217	644	--	19,523
Testing	216	1,387	--	--	1,603
Legal and Professional	1,935	1,935	3,005	48,771	55,646
Advertising	--	--	437	--	437
Laundry and Rug Rental	--	--	680	--	680
License	--	--	645	--	645
Miscellaneous	6,081	1,603	467	6	8,157
Depreciation	38,728	28,240	3,683	77	70,728
Total Operating Expenses	138,958	90,723	150,848	62,672	443,201
Operating Income (Loss)	82,115	75,925	(3,706)	(2,049)	152,285
Non-Operating Revenues (Expenses)					
Special Assessments	206	215	--	189	610
Refunds and Reimbursements	--	--	6,620	--	6,620
Interest Revenue	--	2,999	205	--	3,204
Miscellaneous	--	--	4,701	--	4,701
Donations	15,000	--	--	--	15,000
Federal Grants	143,600	--	--	--	143,600
State Grants and Aids	17,500	--	--	--	17,500
Interest	(4,680)	--	--	--	(4,680)
Bond Issue Cost	(5,550)	--	--	--	(5,550)
Net Non-Operating Revenues (Expenses)	166,076	3,214	11,526	189	181,005
Income Before Contributions and Transfers	248,191	79,139	7,820	(1,860)	333,290
Transfers to other funds	--	--	(2)	--	(2)
Change In Net Position	248,191	79,139	7,818	(1,860)	333,288
<i>Net Position at Beginning of Period</i>	<i>264,410</i>	<i>1,277,013</i>	<i>81,643</i>	<i>36,396</i>	<i>1,659,462</i>
Net Position at End of Period	\$ 512,601	\$ 1,356,152	\$ 89,461	\$ 34,536	\$ 1,992,750

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

City of Balaton
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2023

	Water	Sewer	Liquor Fund	Non-Major Garbage	Total Enterprise Funds
Cash Flows From Operating Activities:					
Cash Received from Customers	\$ 220,611	\$ 166,320	\$ 452,529	\$ 60,449	\$ 899,909
Cash Paid to Suppliers	(60,665)	(30,646)	(358,952)	(57,845)	(508,108)
Cash Paid to Employees	(36,633)	(30,026)	(78,595)	584	(144,670)
Net Cash Flows Provided (Used) by Operating Activities	123,313	105,648	14,982	3,188	247,131
Cash Flows from Non-Capital Financing Activities:					
Operating Transfers Out to general fund	-	-	(2)	-	(2)
Miscellaneous	-	-	11,319	-	11,319
Net Cash Provided (Used) by Non-Capital Financing Activities	-	-	11,317	-	11,317
Cash Flows from Capital and Related Financing Activities:					
Bond Cost	(5,550)	-	-	-	(5,550)
Bond Proceeds	157,000	-	-	-	157,000
Grant Proceeds	161,100	-	-	-	161,100
Donations	15,000	-	-	-	15,000
Interest Paid	(4,680)	-	-	-	(4,680)
Bond Payments	(19,000)	-	-	-	(19,000)
Purchase of Property and Equipment	(442,155)	(2,723)	-	-	(444,878)
Net Cash Provided (Used) by Capital and Related Financing Activities	(138,285)	(2,723)	-	-	(141,008)
Cash Flows from Investing Activities:					
Interest Received	-	2,999	205	-	3,204
Net Cash Provided (Used) by Investing Activities	-	2,999	205	-	3,204
Net Increase (Decrease) in Cash and Cash Equivalents	(14,972)	105,924	26,504	3,188	120,644
Cash and Cash Equivalents - Beginning of Year	89,007	304,602	77,178	39,727	510,514
Cash and Cash Equivalents - End of Year	\$ 74,035	\$ 410,526	\$ 103,682	\$ 42,915	\$ 631,158

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FLOW PROVIDED (USED) BY OPERATING ACTIVITIES

Operating Income (Loss)	\$ 82,115	\$ 75,925	\$ (3,706)	\$ (2,049)	\$ 152,285
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:					
Depreciation	38,728	28,240	3,683	77	70,728
Change in Pension Asset/Liability	1,474	1,291	4,239	368	7,372
Special Assessments	206	215	-	189	610
Changes in Assets and Liabilities:					
Accounts Receivable	(670)	(543)	1,820	(363)	244
Special Assessments Receivable	-	-	-	-	-
Inventory	(934)	-	(399)	-	(1,333)
Prepaid Expenses	2,392	-	-	-	2,392
Accounts Payable	-	(989)	3,976	4,750	7,737
Accrued Leave	-	1,509	5,369	216	7,094
Unearned Revenue	2	-	-	-	2
Net Cash Provided (Used) by Operating Activities	\$ 123,313	\$ 105,648	\$ 14,982	\$ 3,188	\$ 247,131

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

City of Balaton
Statement of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
General Fund
For the Year Ended December 31, 2023

	Budgeted Amounts		Actual	Variance
	Original	Final		Over (Under) Final to Actual
Revenues				
General Property Taxes	\$ 473,800	\$ 473,800	\$ 479,450	\$ 5,650
License and Permits	1,575	1,575	1,800	225
Local Government Aid	243,261	243,261	243,261	--
State Aid	--	--	961	961
Fines & Forfeits	500	500	275	(225)
Interest Income	2,000	2,000	6,495	4,495
Care Center and Community Center Rent	42,800	42,800	27,640	(15,160)
Miscellaneous	6,000	6,000	2,959	(3,041)
Refunds and Reimbursements	2,000	2,000	40,185	38,185
Camping Fees	2,000	2,000	1,347	(653)
Donations	--	--	30,521	30,521
Sale of Equipment	--	--	390	390
Total Revenues	<u>773,936</u>	<u>773,936</u>	<u>835,284</u>	<u>61,348</u>
Other Financing Sources				
Transfers from other funds	--	--	2	2
Total Revenues and Other Financing Sources	<u>773,936</u>	<u>773,936</u>	<u>835,286</u>	<u>61,350</u>
Expenditures				
Mayor and Council				
Salaries and Wages	13,400	13,400	14,451	(1,051)
Payroll Taxes and Benefits	1,353	1,353	1,693	(340)
Printing and Publishing	2,000	2,000	5,385	(3,385)
Dues and Publications	1,530	1,530	2,566	(1,036)
Supplies	3,075	3,075	2,194	881
Training	1,065	1,065	--	1,065
Insurance	300	300	114	186
Clerk				
Salaries and Wages	82,889	82,889	70,395	12,494
Payroll Taxes and Benefits	7,367	7,367	7,214	153
Supplies	1,500	1,500	4,103	(2,603)
Dues and Publications	500	500	562	(62)
Training	500	500	1,347	(847)
Insurance	800	800	805	(5)
Telephone	1,500	1,500	1,822	(322)
Repairs and Maintenance	200	200	29	171
Election				
Election Expenses	--	--	1,086	(1,086)

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

City of Balaton
Statement of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
General Fund (Continued)
For the Year Ended December 31, 2023

	Budgeted Amounts		Actual	Variance
	Original	Final		Over (Under) Final to Actual
City Hall				
Assessor Fees	5,532	5,532	5,544	(12)
Legal and Accounting	19,000	19,000	19,970	(970)
Salaries and Wages	--	--	557	(557)
Payroll Taxes and Benefits	--	--	16	(16)
Insurance	1,000	1,000	1,262	(262)
Supplies and Materials	1,500	1,500	1,386	114
Repairs and Maintenance	200	200	100	100
Utilities	2,050	2,050	1,789	261
Interest Expense	3,089	3,089	1,567	1,522
Debt Payment	50,717	50,717	52,238	(1,521)
Tax Abatement	14,082	14,082	11,290	2,792
Zoning				
Salaries and Wages	994	994	156	838
Payroll Taxes and Benefits	150	150	22	128
Miscellaneous	100	100	600	(500)
Bus garage	1,270	1,270	927	343
Police				
Police Services	75,182	75,182	75,182	--
Civil Defense				
Capital Outlay	2,000	2,000	2,000	-
Streets				
Salaries and Wages	29,610	29,610	25,463	4,147
Payroll Taxes and Benefits	3,873	3,873	3,210	663
Supplies and Materials	5,500	5,500	4,500	1,000
Shop Repairs and Maintenance	55,000	55,000	50,290	4,710
Insurance	7,780	7,780	7,997	(217)
Shop Utilities and Telephone	775	775	891	(116)
Street Lighting	19,000	19,000	19,287	(287)
Other Expenditures	240	240	250	(10)
Capital Outlay	5,450	5,450	--	5,450
Snow				
Salaries and Wages	30,434	30,434	21,299	9,135
Payroll Taxes and Benefits	3,999	3,999	2,781	1,218
Professional Services	980	980	910	70
Supplies and Materials	6,000	6,000	6,248	(248)

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

City of Balaton
Statement of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
General Fund (Continued)
For the Year Ended December 31, 2023

	Budgeted Amounts		Actual	Variance
	Original	Final		Over (Under) Final to Actual
Snow Continued				
Repairs and Maintenance	7,000	7,000	1,414	5,586
Insurance	2,500	2,500	1,967	533
Utilities and Telephone	245	245	84	161
Other Expenses	598	598	--	598
Capital Outlay	9,000	9,000	--	9,000
Principal payments	--	--	4,000	(4,000)
Storm Sewer				
Salaries and Wages	4,893	4,893	3,846	1,047
Payroll Taxes and Benefits	741	741	563	178
Storm Sewer Supplies	640	640	477	163
Repairs and Maintenance	4,500	4,500	4,677	(177)
Other Expenditures	200	200	--	200
Capital Outlay	1,000	1,000	--	1,000
Culture and Recreation				
Parks				
Salaries and Wages	28,056	28,056	22,581	5,475
Payroll Taxes and Benefits	3,631	3,631	2,864	767
Supplies and Repairs	5,200	5,200	11,540	(6,340)
Insurance	8,000	8,000	7,762	238
Utilities and Telephone	3,225	3,225	3,122	103
Repairs and Maintenance	9,000	9,000	5,935	3,065
Miscellaneous	195	195	70	125
Capital Outlay	9,000	9,000	22,286	(13,286)
Supplies and Materials	300	300	458	(158)
Telephone	550	550	867	(317)
Insurance	400	400	647	(247)
Utilities	874	874	895	(21)
Repairs and Maintenance	95	95	--	95

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

City of Balaton
Statement of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
General Fund (Continued)
For the Year Ended December 31, 2023

	Budgeted Amounts		Actual	Variance
	Original	Final		Over (Under) Final to Actual
Community Center				
Salaries and Wages	800	800	1,207	(407)
Payroll Taxes and Benefits	63	63	92	(29)
Supplies and Materials	2,500	2,500	2,166	334
Printing and Publishing	1,200	1,200	464	736
Insurance	1,460	1,460	2,431	(971)
Utilities	6,800	6,800	6,346	454
Repairs and Maintenance	1,500	1,500	90	1,410
Other Expenditures	1,175	1,175	1,757	(582)
Capital Outlay	10,000	10,000	17,830	(7,830)
Other Expenditures	200	200	88	112
Care Center				
Salaries and Wages	21,600	21,600	19,000	2,600
Payroll Taxes and Benefits	7,545	7,545	5,790	1,755
Telephone & Utilities	19,315	19,315	25,162	(5,847)
Repairs and Maintenance	10,570	10,570	21,299	(10,729)
Fuel	21,000	21,000	28,427	(7,427)
Professional Fees	2,500	2,500	1,831	669
Supplies & Materials	2,477	2,477	2,640	163
Insurance	11,600	11,600	15,300	(3,700)
Legal & Professional	17,630	17,630	15,884	1,746
Total Expenditures	<u>703,265</u>	<u>703,265</u>	<u>695,357</u>	<u>7,908</u>
Other Financing Uses				
Transfers to other funds	25,000	25,000	82,200	(57,200)
Total Expenditures and Other Financing Uses	<u>728,265</u>	<u>728,265</u>	<u>777,557</u>	<u>(49,292)</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses				
	45,671	45,671	57,729	13,314
Net Change in Fund Balance	<u>45,671</u>	<u>45,671</u>	<u>57,729</u>	<u>13,314</u>
<i>Fund Balance at Beginning of Period</i>	<u>222,723</u>	<u>222,723</u>	<u>222,723</u>	<u>--</u>
Fund Balance at End of Period	<u>\$ 268,394</u>	<u>\$ 268,394</u>	<u>\$ 280,452</u>	<u>\$ 13,314</u>

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

City of Balaton
Statement of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
EDA
For the Year Ended December 31, 2023

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Over (Under) Actual
Revenues				
Interest Income	\$ 200	\$ 200	\$ 550	\$ 350
Refunds and Reimbursements	--	--	1,459	1,459
Rental Income	78,200	78,200	89,934	11,734
Total Revenues	<u>78,400</u>	<u>78,400</u>	<u>91,943</u>	<u>13,543</u>
Other Financing Sources				
Transfers from other funds	25,000	25,000	40,000	15,000
Total Revenues and Other Financing Sources	<u>103,400</u>	<u>103,400</u>	<u>131,943</u>	<u>28,543</u>
Expenditures				
Capital Outlay	2,900	2,900	25,006	(22,106)
Printing and Publishing	2,000	2,000	245	1,755
Contract Labor	7,200	7,200	7,200	--
Maintenance	9,200	9,200	--	9,200
Legal & Professional	7,800	7,800	8,759	(959)
Insurance	--	--	10,162	(10,162)
Miscellaneous	2,400	2,400	18,792	(16,392)
Grant Expense	3,000	3,000	--	3,000
Interest Expense	19,903	19,903	19,895	8
Debt Payment	43,997	43,997	44,005	(8)
Total Expenditures	<u>98,400</u>	<u>98,400</u>	<u>134,064</u>	<u>(35,664)</u>
Other Financing Uses				
Total Expenditures and Other Financing Uses	<u>98,400</u>	<u>98,400</u>	<u>134,064</u>	<u>(35,664)</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses				
Net Change in Fund Balance	<u>5,000</u>	<u>5,000</u>	<u>(2,121)</u>	<u>(7,121)</u>
Fund Balance at Beginning of Period	<u>(23,766)</u>	<u>(23,766)</u>	<u>(23,766)</u>	<u>--</u>
Fund Balance at End of Period	<u>\$ (18,766)</u>	<u>\$ (18,766)</u>	<u>\$ (25,887)</u>	<u>\$ (7,121)</u>

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

City of Balaton
Statement of Revenues, Expenditures, and Changes
in Fund Balance-Budget and Actual
Fire
For the Year Ended December 31, 2023

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>Over (Under) Actual</u>
Revenues				
State Aid	\$ --	\$ --	\$ 33,081	\$ 33,081
Donations	--	--	49,100	49,100
Contract and Run Fees	44,453	44,453	46,849	2,396
Refunds & Reimbursements	--	--	3,626	3,626
Miscellaneous	--	--	22	22
Total Revenues	44,453	44,453	132,678	88,225
Other Financing Sources				
Transfers from other funds	30,000	30,000	30,000	--
Total Revenues and Other Financing Sources	74,453	74,453	162,678	88,225
Expenditures				
Salaries and Wages	2,850	2,850	4,477	(1,627)
Payroll Taxes and Benefits	217	217	359	(142)
Radio Expenditures	3,000	3,000	1,449	1,551
Supplies and Materials	8,000	8,000	7,515	485
Fuel	3,000	3,000	2,668	332
Legal and Accounting	3,000	3,000	4,650	(1,650)
Insurance	7,800	7,800	8,454	(654)
Repairs and Maintenance	14,000	14,000	3,117	10,883
Utilities and Telephone	3,060	3,060	3,688	(628)
Training/Testing & Physicals	9,020	9,020	10,652	(1,632)
Fire Relief	2,000	2,000	20,172	(18,172)
Other Expenditures	1,565	1,565	572	993
Capital Outlay	14,000	14,000	60,713	(46,713)
Interest Expense	7,864	7,864	6,191	1,673
Debt Payment	20,472	20,472	22,145	1,673
Total Expenditures	99,848	99,848	156,822	(56,974)
Other Financing Uses				
Total Expenditures and Other Financing Uses	99,848	99,848	156,822	(56,974)
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses				
Net Change in Fund Balance	(25,395)	(25,395)	5,856	31,251
<i>Fund Balance at Beginning of Period</i>	150,860	150,860	150,860	--
Fund Balance at End of Period	\$ 125,465	\$ 125,465	\$ 156,716	\$ 31,251

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

A. REPORTING ENTITY

The City of Balaton, Minnesota (the City) was founded in 1879 by the Dakota Central Railroad and is a municipal corporation, incorporated under the laws of the State of Minnesota, and governed under a charter adopted. The City was formed and operates pursuant to applicable Minnesota laws and statutes. The City operates under an elected Mayor and four-member council form of government. The council has control over all activities related to the City of Balaton. The City provides the following services: sanitation, recreation, public improvements, planning and zoning, and general administrative services.

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

Blended Component Unit

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. REPORTING ENTITY (Continued)

Economic Development Authority – The City created an Economic Development Authority (EDA) by resolution of its governing board. The EDA is governed by a five- member board appointed by the City Council. Although it is legally separate from the City, the EDA is reported as if it were part of the primary government because its purpose is to approve the City’s redevelopment plans. The EDA cannot issue bonded debt without the City’s approval.

The activities of the EDA are reported as a major special revenue fund in the Governmental Fund Financial Statements.

Related Organizations

A related organization is excluded from the financial reporting entity because of the City’s agreements setup with the outside entities leasing the property.

Lakeview Senior Housing- The City created Lakeview Senior Housing by resolution of its governing board. Lakeview Senior Housing is now leased by MN Signature Care Services. Terms of the lease agreement can be reviewed at the City office. The Tenant shall pay the City of Balaton Economic Development Authority a monthly rent payment to cover the debt with First Independent Bank on the building and maintain an improvement balance for future improvements. The third party will operate the entity to its entirety.

Related Organization-Fire Relief Association

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

Balaton Fire Department Relief Association- The Association is organized as a nonprofit organization by its members to provide pension and other benefits to such members in accordance with Minnesota statutes. The Association’s Board of Trustees consists of six members elected by the membership of the Association and three ex officio members, the Mayor, Clerk-Treasurer and Fire Chief. All funding is obtained in accordance with Minnesota statutes whereby state aids and tax levies, which are determined by the Association, flow through the City of the Association. The Association pays benefits directly to its members. The Balaton Fire Department does not use the PERA system for retirement.

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS
BASIS FOR PRESENTATION**

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and Statement of Activities) report information on all activities of the City. For the most part, the effect of inter-fund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units. They include all funds of the reporting entity except for fiduciary funds (of which, the City has none).

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

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

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

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

The funds of the financial reporting entity are described below:

Governmental Funds:

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

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The city maintains fire, ambulance, economic development, and small cities development (SCDG).

Debt Service Funds – The Debt Service Fund is used to account for all financial resources that are restricted, committed, or assigned to expenditure for principal and interest. Ad valorem taxes are used for the payment of principal and interest on the City's judgment.

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Proprietary Funds:

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

Fiduciary Funds:

Agency Fund – An agency fund is used to account for assets held solely in custodial capacity. Accordingly, assets in agency funds are always matched by liabilities to the owners of the assets. The City has no agency funds.

The City reports the following major governmental funds:

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

The *EDA Fund* accounts for the activities of the City's EDA department.

The *Fire Fund* accounts for the activities of the City's Fire Department.

The *Debt Service Fund* accounts for the activities of the city's debt service.

The City reports the following major proprietary funds:

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

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

The *Liquor Fund* accounts for the operations of the City's liquor store.

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

Amounts reported as program revenues include charges to customers or applicants for goods, services, or privileges provided, operating grants and contributions, and capital grants and contributions, including special assessments. General revenues include all taxes.

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

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

D. ASSETS, LIABILITIES, AND NET POSITION OR FUND BALANCE

Deposits and Investments

The City recognizes cash currency on hand and demand deposits with banks or other financial institutions as cash. It also includes other accounts that have the general characteristics of demand deposits in that the customer may deposit or withdraw funds at any time without prior notice or penalty such as certificates of deposits, which do not have penalties or terms with them that effectively restrict withdrawal of funds, money market accounts and repurchase agreements.

The City recognizes as cash equivalents short-term, highly liquid investments that (a) are readily convertible to known amounts of cash and (b) are so near to their maturity that they present an insignificant risk of changes in value because of changes in interest rates.

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Deposits and Investments (Continued)

Cash and investments of the proprietary fund types are pooled with the City's pooled cash and investments. Investments are carried at fair value, based on quoted market price at the reporting date.

Receivables and Payables

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

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

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

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

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

Receivables related to economic development and small cities development are recognized as earned and are further discussed in Note 3.C.

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

Inventories

Inventory is valued at lower of cost or market using the first-in, first-out method. The City maintains inventory at the liquor store. The cost of other consumable materials and supplies on hand are immaterial to the financial statements and the City has therefore chosen to report these items as expenditures/expenses at the time of purchase.

Prepays

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

Restricted Assets

Restricted assets are deposits held for specifically required purposes and are offset by fund balance reserve accounts.

Capital Assets

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

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

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

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

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Deferred Outflows/Inflows of Resources

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

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represent an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The City of has three types of items that qualify for reporting in this category; unearned property taxes and note receivables and deferred inflows relating to pensions. These amounts are deferred and recognized as inflows of resources in the period that the amount is earned. Deferred amounts relating to pensions represent differences between projected and actual earnings on pension plan investments and are recognized over a five-year period.

As of December 31, 2023, the City has deferred outflows/inflows as follows:

	<u>Deferred Outflow</u>	<u>Deferred Inflow</u>
Amounts Relating To Pensions	\$ 59,490	\$ 66,126
Amounts Relating To Unearned Property Taxes		29,568
Amounts Relating To Unearned Notes Receivable		4,461

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position.

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

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

Compensated Absences

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

All employees having earned permanent employment status are entitled to paid vacation as follows: earns 1 week after the first year, 2 weeks in years 2 through 4, 3 weeks in years 5 and over. Five days of vacation leave may be carried into a subsequent year, with all other accrued leave not taken during the year lost. Vacation pay is charged to operations when taken by employees of the City.

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Every employee is entitled to 1-day sick leave per month of full-time service or major fraction thereof. Accumulated sick leave exceeding 120 days may be traded at the rate of four unused sick days for one vacation day.

All employees, upon completion of 10 years of service, will receive severance pay for unused accumulated sick leave to a maximum of 120 days/960 hours. This severance pay will be cashed-out at a rate of 1/3 of the accumulated number of hours/days at the hourly rate being paid at the time of the resignation or retirement.

Fund Balance Classifications

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

- Nonspendable fund balance – Consists of amounts that cannot be spent because it is not in spendable form, such as inventory; or are legally or contractually required to be maintained intact.
- Restricted fund balance – Consists of amounts related to externally imposed constraints established by creditors, grantors or contributors, bondholders, laws and regulations of other governments; or imposed by law through constitutional provisions or enabling legislation.
- Committed fund balance – Consists of amounts that are constrained for specific purpose that are internally imposed by formal action (resolution) of the City Council. To be reported as committed, amounts cannot be used for any other purpose unless the City Council removes or changes that specified use by taking the same type of action it employed to previously commit those amounts.

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

- Assigned fund balance – Consists of amounts intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In the General Fund, assigned amounts represent intended uses established by the governing body itself or by an official to which the governing body delegates the authority. The City has no assigned amounts.
- Unassigned fund balance – Consists of amounts that are available for any purpose. Positive amounts are reported only in the general fund. It also reflects negative residual amounts in other funds.

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

The City Council has formally adopted a fund balance policy for the General Fund. The City's policy is to maintain a minimum unassigned fund balance between the range of 35%-50% of budgeted operating expenditures for cash flow timing needs. At December 31, 2023, the unassigned fund balance of the General Fund was 37% of the subsequent year's budgeted expenditures.

Net Position Classifications

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

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

E. USE OF ESTIMATES

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. PENSIONS

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA except that PERA's fiscal year end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. Amounts are allocated in accordance with employee wages; Governmental Funds- 60%, Proprietary Funds- 23% liquor, 2% garbage, 8% water and 7% sewer.

G. BUDGETARY INFORMATION

Budgets

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are legally adopted by Council resolution for the General Fund, Debt Service, Ambulance Fund, Fire and EDA Fund.

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

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

All budget amounts presented reflect the original budget and the final budget (which have been adjusted for legally authorized revisions of the annual budgets during the year). The General Fund, EDA, Ambulance, Fire and Debt Service Fund utilized the same basis of accounting for both budgetary purposes and actual results.

H. ENCUMBRANCES

The City does not utilize encumbrance accounting.

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

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

The following funds had excess expenditures over appropriations for 2023.

EDA	35,664
Fire	56,974

B. DEFICIT FUND BALANCES/NET POSITION

The EDA fund has a deficit fund balance of \$25,887 as of December 31, 2023.

C. DEBT RESTRICTIONS AND COVENANTS

General Obligation Debt

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

D. FUND BALANCE CLASSIFICATION

At December 31, 2023, a summary of the governmental fund balance classifications are as follows:

	General <u>Fund</u>	Major <u>Fire</u>	Major <u>EDA</u>	Major <u>Debt Service</u>	Non Major <u>Ambulance</u>	Non Major <u>SCDG</u>	Total Govt <u>Funds</u>
Committed	18,891	10,367					29,258
Restricted For:							
Capital Outlay		12,910			12,910		25,820
Debt Service				258,134			258,134
Assigned		133,439			170,386	21,979	325,804
Unassigned	<u>261,561</u>		<u>(25,887)</u>				<u>235,674</u>
Total Fund Balance	<u><u>280,452</u></u>	<u><u>156,716</u></u>	<u><u>(25,887)</u></u>	<u><u>258,134</u></u>	<u><u>170,386</u></u>	<u><u>21,979</u></u>	<u><u>874,690</u></u>

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

NOTE 3. DETAIL NOTES ON ALL FUNDS

A. DEPOSITS AND INVESTMENTS

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

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

Deposits

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

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

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

According to Minnesota Statutes, the aggregate of a municipality's savings accounts, NOW accounts, and time deposits (CD's) with the same depository are insured up to a total of \$250,000. The aggregate of a municipality's non-interest-bearing checking accounts are insured up to a total of \$250,000 and are insured separately from the municipality's other deposits. This separate \$250,000 coverage from checking accounts only applies if the depository is in the same state as the municipality.

Custodial Credit Risk – Deposits: Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. Deposits in financial institutions, reported as components of cash and cash equivalents, had a bank balance of \$2,001,075 at December 31, 2023, that was fully insured by depository insurance or secured with collateral held by the City's agent in its name. The carrying amount of these deposits at December 31, 2023 was \$1,911,990.

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

NOTE 3. DETAIL NOTES ON ALL FUNDS (Continued)

A. DEPOSITS AND INVESTMENTS (Continued)

Investment Policy

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

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

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

- a.) Direct obligations or obligations guaranteed by the United States or its agencies.
- b.) Shares of investment companies registered under the Federal Investment Company Act of 1940 and whose only investments are in securities described in (a) above.
- c.) General obligations of the State of Minnesota or its municipalities.
- d.) Bankers acceptances of United States banks eligible for purchase by the Federal Reserve System
- e.) Commercial paper issued by United States corporations or their Canadian subsidiaries, rated of the highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less
- f.) Repurchase or reverse repurchase agreements and securities lending agreements with financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers
- g.) Money market funds with institutions that have portfolios consisting exclusively of United States Treasury obligations and Federal Agency issues.
- h.) Guaranteed investment contract (GIC's) issued or guaranteed by United States Commercial Banks or domestic branches of foreign banks or United State insurance company and with a credit quality in one of the top two highest categories.

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

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

NOTE 3. DETAIL NOTES ON ALL FUNDS (Continued)

A. DEPOSITS AND INVESTMENTS (Continued)

Interest Rate Risk

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

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

The following table represents the City’s cash balances as of December 31, 2023:

<u>Cash/Investment Type:</u>	<u>Credit Rating</u>	<u>Average Maturities</u>	<u>% of Total</u>	<u>Fair Value</u>
Pooled Cash and Cash Equivalents:				
Cash	N/A	N/A	79%	\$1,511,644
CD’s	N/A	N/A	21%	400,346
 Total Cash and Cash Equivalents			<u>100%</u>	<u>\$1,911,990</u>

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

NOTE 3. DETAIL NOTES ON ALL FUNDS (Continued)

A. DEPOSITS AND INVESTMENTS (Continued)

Credit Risk

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

Concentrations of Credit Risk

The risk of loss to the magnitude of the City's investments in a single issuer. The City places no limit on the amount that may be invested in any one issuer. As of December 31, 2023, the City of Balaton has no investments.

Custodial Credit Risk

For an investment, this is the risk that in the event of the failure of the counterparty, the City will not be able to recover the value of its investment of collateral securities that are in the possession of an outside party. As of December 31, 2023, all investments were insured or registered or the securities were held by the City or its agent in the City's name.

B. ACCOUNTS RECEIVABLE

Accounts receivable of the business-type activities consists of utilities receivable. No allowance for uncollectible accounts is deemed necessary at year end. The balance as of December 31, 2023 is \$4,321.

Accounts receivable of the governmental activities consists of mainly ambulance and fire billings. The balance as of December 31, 2023 is \$71,741. Delinquent taxes have been offset by deferred inflows of resources for delinquent taxes not received within 60 days after year-end in the governmental fund financial statements. The deferred inflow amount on the governmental balance sheet as of December 31, 2023 is \$29,568. Taxes receivable as of December 31, 2023 is \$40,000 and Special Assessments is \$527.

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

NOTE 3. DETAIL NOTES ON ALL FUNDS (Continued)

C. NOTES RECEIVABLE

The Small Cities Development Fund was established to provide low interest loans to assist homeowners and businesses with rehabilitation. Grants from the State of Minnesota were received to assist low-income homeowners. The grant funds were actually disbursed by an outside agency with the payments also being made to the outside agency. The City will use these funds for additional loans in the future. The loans have been collateralized and call for periodic payments of principal and interest. In the fund financial statements, under the modified accrual basis of accounting, the loans have been completely offset by deferred inflows of resources. Therefore, no revenues will be recognized until the payments are actually received. In the government-wide financial statements, under the accrual basis of accounting, revenues are earned and therefore, recognized. Interest rates on these loans are 2%. Payment terms are monthly payments between \$93 and \$195.

Payments due in 2024 is scheduled at \$2,004.

The following is a summary of notes receivable transactions for the year ended December 31, 2023:

	Balance	Amount	Payments	Amount	Balance
	<u>1/1/2023</u>	<u>Advanced</u>	<u>Received</u>	Written Off	<u>12/31/2023</u>
Small Cities Development Loans	8,691	0	4,230	0	4,461
Totals	<u>8,691</u>	<u>0</u>	<u>4,230</u>	<u>0</u>	<u>4,461</u>

D. DUE FROM OTHER GOVERNMENTS

Due from other governments in the governmental activities usually consist of grant revenues that have been spent and submitted for reimbursement but have not been received as of December 31, 2023. Included in this is a State of MN DEED grant proceeds for \$14,185 for expenses related to the Small Cities grant.

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

NOTE 3. DETAIL NOTES ON ALL FUNDS (Continued)

E. CAPITAL ASSETS

A summary of changes in capital assets for the year ended December 31, 2023 is as follows:

	<u>Balance</u> <u>12/31/2022</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/2023</u>
Governmental Activities:				
Capital Assets Not Being Depreciated:				
Land	758,538	15,000	0	773,538
Total Capital Assets Not Being Depreciated	<u>758,538</u>	<u>15,000</u>	<u>0</u>	<u>773,538</u>
Capital Assets Being Depreciated:				
Infrastructure	273,074			273,074
Buildings & Equipment	3,879,542	117,998	23,676	3,973,864
Total Capital Assets Being Depreciated	<u>4,152,615</u>	<u>117,998</u>	<u>23,676</u>	<u>4,246,938</u>
Less Accumulated Depreciation for:				
Infrastructure	(341,419)	(23,858)	0	(365,277)
Buildings & Equipment	<u>(2,255,355)</u>	<u>(180,232)</u>	<u>(19,158)</u>	<u>(2,416,429)</u>
Total Accumulated Depreciation	<u>(2,596,774)</u>	<u>(204,090)</u>	<u>(19,158)</u>	<u>(2,781,706)</u>
Total Capital Assets Being Depreciated, Net	<u>1,555,841</u>			<u>1,465,231</u>
Governmental Capital Assets, Net	<u>2,314,379</u>			<u>2,238,769</u>
Business-Type Activities:	<u>Balance</u> <u>12/31/2022</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/2023</u>
Capital Assets Not Being Depreciated:				
Land	2,000	0	0	2,000
Construction in Progress	5,714	2,721	0	8,435
Total Capital Assets Not Being Depreciated	<u>7,714</u>		<u>0</u>	<u>10,435</u>
Capital Assets Being Depreciated:				
Buildings and Improvements	1,981,174	412,814	0	2,393,988
Equipment	804,407	29,340		833,747
Total Capital Assets Being Depreciated	<u>2,785,581</u>	<u>442,154</u>	<u>0</u>	<u>3,227,735</u>
Less Accumulated Depreciation	<u>(1,917,599)</u>	<u>(70,729)</u>		<u>(1,988,328)</u>
Total Capital Assets Being Depreciated, Net	<u>867,982</u>			<u>1,239,407</u>
Business-Type Activity Capital Assets, Net	<u>875,696</u>			<u>1,249,842</u>

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

NOTE 3. DETAIL NOTES ON ALL FUNDS (Continued)

E. CAPITAL ASSETS (Continued)

Depreciation Expense was charged to functions/programs as follows:

Governmental Activities:	
General Government	\$ 1,225
Public Safety	80,032
Public Works	34,811
Culture & Recreation	19,497
Housing & Economic Development	44,667
Depreciation-Unallocated	<u>23,858</u>
Total Depreciation Expense- Government Activities	<u>\$ 204,090</u>
Business Type Activities:	
Liquor	\$ 3,683
Water	38,728
Sewer	28,240
Garbage	<u>78</u>
Total Depreciation Expense- Business Type Activities	<u>\$ 70,729</u>

F. ACCOUNTS PAYABLE

Payables in the general, major governmental funds and enterprise funds are composed almost entirely of payables to vendors. As of December 31, 2023, there were \$12,174 in accounts payable.

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

NOTE 3. DETAIL NOTES ON ALL FUNDS (Continued)

G. LONG-TERM DEBT

General Obligation Essential Function Housing Development Revenue Bond

This revenue bond was issued in 2004 for \$1,475,000 and is payable in monthly payments of \$5,325. These payments are made out of the EDA fund and include an interest rate of 5% and are due May 2, 2034. This bond is backed by the full faith, credit and taxing power of the City.

General Obligation Improvement Crossover Refunding Bond Series 2012A

This refunding bond was issued on November 26, 2012 for \$1,465,000 and is payable in annual installments starting in 2014. This bond is used to refund the 2003 and 2005 bonds. These payments will be made out of the water fund and debt service fund and include an interest rate range from 1.05% to 2.8% and are due February 01, 2026. Bond issuance costs were \$15,850. This bond is backed by the full faith credit and taxing power of the City.

As a result of the refunding, the City will realize from an interest rate reduction, a gross savings of \$116,865 and an economic gain (difference between the present values of the old and the new debt service payments) of \$126,253.

GO Water Revenue Series 2015A

This water revenue bond was issued May, 2015 for \$280,000 and is payable in annual installments starting in 2016. These payments include an interest rate of 3.15% and are due February 1, 2030. The revenue bond is backed by the full faith credit and taxing power of the City.

Water Improvement Bond

This improvement bond was issued in 2012 for \$415,000 and is payable in annual installments. These payments are made out of the debt service fund and include an interest rate of 4.60% and are due January 1, 2021. This bond is backed by the full faith, credit and taxing power of the City.

General Obligation Improvement Refunding Bonds of 2020A

This improvement bond was issued in February 2020 for \$444,000 and is payable in annual installments starting in February 2021. These payments include an interest rate 2.75% and are due February 01, 2031. This bond is backed by the full faith credit and taxing power of the City.

As a result of the refunding, the City will realize from an interest rate reduction, a gross savings of \$49,425 and an economic gain (difference between the present values of the old and the new debt service payments) of \$49,486.

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

NOTE 3. DETAIL NOTES ON ALL FUNDS (Continued)

G. LONG-TERM DEBT (Continued)

Water Revenue Note 2023A

This improvement bond was issued in June 2023 for \$157,000 and is payable in annual installments starting February 2025. These payments will include an interest rate of 3.85% and are due February 2033. This bond is backed by the full faith credit and taxing power of the City.

The following is a summary of the changes in Bonds Payable and Long-Term Debt for 2023:

	Balance 1-1-23	Additions	Reductions	Balance 12-31-23	Amounts Due in One Year
Governmental Activities					
Notes Payable:					
League of MN Cities Loan	52,238		52,238	-	-
Installment Agreement	8,000		4,000	4,000	4,000
Total Notes Payable	52,238	12,000	56,238	4,000	4,000
Lease Payable:					
First Lease- Fire Truck	169,967		22,145	147,822	22,871
Total Lease Payable	169,967		22,145	147,822	22,871
Bonds:					
GO Essential Function Housing Development of 2004	588,376		44,005	544,371	45,562
GO Refunding Bond 2020A	438,000	-	3,000	435,000	3,000
Go Improvement Series 2012A	485,000	-	115,000	370,000	120,000
Total Bonds Payable	1,511,376	-	162,005	1,349,371	168,562
Other Long Term Liabilities:					
Compensated Absences	1,337	5,462		6,799	-
Total Liabilities Governmental Activities	1,734,918	12,462	240,388	1,507,992	195,433
Business-Type Activities					
GO Water Revenue Series 2015A	166,000		19,000	147,000	19,000
GO Water Revenue Series 2023A		157,000		157,000	-
Other Long Term Liabilities:					
Compensated Absences	8,460	5,964		14,424	-
Total Liabilities Business-Type Activities	174,460	162,964	19,000	318,424	19,000
Total Liabilities	1,909,378	175,426	259,388	1,826,416	214,433

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

NOTE 3. DETAIL NOTES ON ALL FUNDS (Continued)

G. LONG-TERM DEBT (Continued)

2023 Governmental-Type Activities	GO Bonds		Notes Payable	
	Principal	Interest	Principal	Interest
2024	168,562	38,572	4,000	-
2025	175,182	38,572		-
2026	176,860	33,713		
2027	153,598	28,546		
2028	153,398	23,601		
2029-2033	521,770	52,789		
2034-2038	0	1,400		
2039-2043				
Totals	<u>1,349,370</u>	<u>217,192</u>	<u>4,000</u>	<u>-</u>

2023 Business Type	GO Bonds		Lease Payable		
	Principal	Interest	Principal	Interest	
2024	19,000	10,379	2024	22,871	5,465
2025	32,000	9,531	2025	23,751	4,585
2026	36,000	8,362	2026	24,650	3,686
2027	37,000	7,100	2027	25,583	2,753
2028	39,000	5,787	2,028	26,547	1,789
2029-2033	<u>141,000</u>	<u>11,281</u>	2029-2033	<u>24,420</u>	<u>780</u>
Totals	<u>304,000</u>	<u>52,438</u>		<u>147,823</u>	<u>19,057</u>

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

NOTE 3. DETAIL NOTES ON ALL FUNDS (Continued)

H. LEASE PURCHASE

On July 29, 2019, the City of Balaton fire department signed a lease purchase agreement with First Lease LLC for the purpose of the new pumper and chassis. Interest rate is 3.75% with two payments in January and July starting 2020. Last payment will be July 05, 2029.

I. INSTALLMENT AGREEMENT

On April 11, 2022 the City of Balaton signed an installment agreement for the purchase of two vehicles. Total purchase price is \$12,000. First payment was made in 2022 for \$4,000. The remainder will be paid in two different installments of \$4,000 on April 1, 2023 and April 1, 2024. The City has the option to pay in full at any time.

J. INTERFUND TRANSACTIONS _____

Interfund Transfers

Transfers between funds of the primary government for the years ended December 31, 2023:

<u>Transfers In</u>	<u>General Fund</u>	<u>Liquor Fund</u>	<u>Total</u>
Fund:			
General	-	2	2
EDA	40,000	-	40,000
Ambulance	12,200	-	12,200
Fire	30,000	-	30,000
Total	<u>82,200</u>	<u>2</u>	<u>82,202</u>

All transfers between funds were for operating expenses the following is December 31, 2023.

	<u>Transfers In</u>	<u>Transfers Out</u>	<u>Net</u>
Reconciliation to Fund Financial Statements:			
Governmental Funds	82,202	(82,200)	2
Enterprise Funds	0	2	(2)
Total Transfers	<u>82,202</u>	<u>(82,202)</u>	<u>0</u>

Interfund Balances

At December 31, 2023, these were the following interfund advances due to cash deficits. No repayment plan has been setup. _____

<u>Advance to</u>	<u>Advance From</u>	<u>Amount</u>	<u>Purpose</u>
Water	Debt Service	\$ 18,355	Cash deficit
EDA	Debt Service	125,808	Cash deficit
General	Sewer Fund	515,414	Cash deficit
General	Debt Service	41,146	Cash deficit

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

NOTE 3. DETAIL NOTES ON ALL FUNDS (Continued)

K. COMMITTED FUND BALANCE BREAKDOWN

There is committed fund balance in the general fund at December 31, 2023:

Parks Improvements	\$ 6,854
Community Center	7,500
Sports Complex	<u>4,537</u>
Total Committed General	\$18,891

Fire Committed for capital outlay	\$10,367
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L. RESTRICTED FUND BALANCE BREAKDOWN

There is restricted fund balance at December 31, 2023:

Fire – Capital Outlay	\$ 12,910
Ambulance- Capital Outlay	<u>12,910</u>
Total Restricted	\$ 25,820

NOTE 4. OTHER INFORMATION

A. MANAGEMENT AGREEMENTS

EDA entered into an agreement with MN Signature to manage and operate the Lakeview Senior Housing facility. The monthly rent will be \$6,500.

B. RENTAL AGREEMENT BETWEEN EDA AND LAKEVIEW SENIOR HOUSING

Lakeview Senior Housing rents the operations real estate from the EDA. Lakeview Senior Housing is responsible for all taxes, insurance and maintenance on the property. The EDA is responsible for the principal and interest on the bond with First Independent Bank. During 2023 Lakeview Senior Housing paid rents of \$63,900. Future commitments are as follows:

2024	63,900
2025	63,900
2026	63,900

C. FEDERAL AIDS – SINGLE AUDIT ACT

The City expended less than \$750,000 of federal financial assistance and is exempt from the audit requirements of the Uniform Guidance and all other federal audit requirements.

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

NOTE 4. OTHER INFORMATION(CONTINUED)

D. RISK MANAGEMENT

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

As of December 31, 2023, the City did not have any claims which were probable and measurable and therefore no liability is recorded in the financial statements presented. The City has not had any claims which exceeded its deductible during the past three years.

E. COMMITMENTS AND CONTINGENCIES

Grant Program Involvement

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

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

NOTE 4. OTHER INFORMATION(CONTINUED)

E. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Litigation

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

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

F. TAX ABATEMENTS

The city has granted tax abatements with approved resolutions since 2016. One for all new residential and commercial units that are built in Balaton. The city will grant abatement for a period of three years: Year one 80% of the taxes, Year two 60% of the taxes and Year three 40% of the taxes. The new resolutions have a \$10,000 cap limit on the tax abatements were residential or commercial.

The other abatement was to the buyer of the EDA's duplex. The city will grant abatement for a period of three years: Year one 80% of the taxes, Year two 60% of the taxes and Year three 40% of the taxes.

2023	11,290 (Actual)
2024	8,820 (Estimated)
2025	5,288 (Estimated)
2026	2,120 (Estimated)

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

NOTE 5. DEFINED BENEFIT PENSION PLANS – STATEWIDE

A. PLAN DESCRIPTION

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

General Employees Retirement Plan

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

B. BENEFITS PROVIDED

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

General Employees Plan Benefits

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

Benefit increases are provided to benefit recipients each January. The postretirement increase will be equal to 50 percent of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1.0 percent and a maximum of 1.5 percent. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase. For recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a reduced prorated increase. In 2023, legislation repealed the statute delaying increases for members retiring before full retirement age.

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

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

B. BENEFITS PROVIDED (Continued)

General Employees Plan Benefits (Continued)

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

C. CONTRIBUTIONS

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

General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.5 percent of their annual covered salary in fiscal year 2023; the City was required to contribute 7.50 percent for Coordinated Plan members. The City's contributions to the General Employees Fund for the years ended December 31, 2023, 2022, and 2021 were \$21,357, \$20,588 and \$19,885, respectively. The City's contributions were equal to the required contributions as set by the state statute.

D. PENSION COSTS

General Employee Fund Pension Costs

At December 31, 2023, the City reported a liability of \$212,492 for its proportionate share of the General Employee Fund's net pension liability. The City's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the City totaled \$5,851.

The net pension liability was measured as of June 30, 2023, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportionate share of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2022, through June 30, 2023, relative to the total employer contributions received from all of PERA's participating employers. The City's proportion share was 0.0038% at the end of the measurement period and 0.0037% for the beginning of the period.

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

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

Entity’s proportionate share of the net pension liability	\$212,492
State of Minnesota’s proportionate share of the net pension liability associated with the City	<u>5,851</u>
Total	218,343

For the year ended December 31, 2023, the City recognized pension expense of \$5,597 for its proportionate share of General Employee Fund’s pension expense. In addition, the City recognized an additional \$268 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota’s contribution of \$16 million to the General Employees Fund.

At December 31, 2023, the City reported its proportionate share of General Employee Plan’s deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences Between Expected and Actual Economic Experience	\$ 6,935	\$ 1,387
Changes in Actuarial Assumptions	32,625	58,242
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	0	6,495
Changes in Proportion	9,574	0
Employer Contributions Subsequent to the Measurement Date	<u>10,356</u>	<u>0</u>
Totals	<u>\$ 59,490</u>	<u>\$ 66,124</u>

\$10,356 reported as deferred outflows of resources related to pensions resulting from the City’s contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2024. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30,</u>	<u>Pension Expense Amount</u>
2024	\$8,933
2025	(\$27,538)
2026	\$6,225
2027	(\$4,610)

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

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

E. LONG-TERM EXPECTED RETURN ON INVESTMENT

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

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

F. ACTUARIAL METHODS AND ASSUMPTIONS

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

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

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

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

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

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

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

The following changes in actuarial assumptions occurred in 2023:

General Employees Fund

Changes in Actuarial Assumptions:

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

Changes in Plan Provisions:

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

G. DISCOUNT RATE

The discount rate used to measure the total pension liability in 2023 was 7.0%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, each of the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. 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 BALATON
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2023

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

H. PENSION LIABILITY SENSITIVITY

The following presents the City’s proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the City’s proportionate share of the net pension liability would be if it were calculated using a discount rate 1 percentage point lower or 1 percentage point higher than the current discount rate:

	1% Lower at different discount rate (6.0%)	Current Discount Rate (7.0%)	1% Higher at different discount rate (8.0%)
City’s proportionate share of the General Employees Fund net pension liability:	\$375,915	\$212,492	\$78,070

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.

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

Fiscal Year Ending	Employer's Proportion (Percentage) of the Net Pension Liability (Asset)	Employer's Proportionate Share (Amount) of the Net Pension Liability (Asset) (a)	State's Proportionate Share (Amount) of the Net Pension Liability Associated with the City (b)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll (a+b)		Employer's Covered-Employee Payroll (c)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll ((a+b)/c)		Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
				Employee Payroll (a+b)	Percentage of its Covered-Employee Payroll (a+b)/c		Employee Payroll (a+b)/c	Percentage of its Covered-Employee Payroll ((a+b)/c)	
June 30, 2023	0.0038%	\$212,492	\$5,851	\$218,343	\$278,278	78.46%	83.10%		
June 30, 2022	0.0037%	\$293,042	\$8,572	\$301,614	\$275,457	109.50%	76.70%		
June 30, 2021	0.0036%	\$153,737	\$4,682	\$158,419	\$264,028	60.00%	87.00%		
June 30, 2020	0.0035%	\$209,841	\$6,457	\$216,298	\$232,764	92.93%	80.20%		
June 30, 2019	0.0031%	\$171,392	\$5,333	\$176,725	\$225,297	78.44%	80.20%		
June 30, 2018	0.0033%	\$183,070	\$5,991	\$189,061	\$229,162	82.50%	79.50%		
June 30, 2017	0.0039%	\$248,973	\$3,106	\$252,079	\$235,521	107.03%	75.90%		
June 30, 2016	0.0040%	\$324,780	\$4,292	\$329,072	\$234,408	140.38%	68.90%		
June 30, 2015	0.0044%	\$228,031	\$0	\$228,031	\$256,094	89.04%	78.20%		

* Schedule is intended to show 10-year trend. Additional years will be reported as they become available.
 **For purposes of this schedule, covered employee payroll is defined as "pensionable wages".

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

<u>Fiscal Year Ending</u>	<u>Statutorily Required Contribution (a)</u>	<u>Contributions in Relation to the Statutorily Required Contribution (b)</u>	<u>Contribution Deficiency (Excess) (a-b)</u>	<u>Covered-Employee Payroll (d)</u>	<u>Contributions as a Percentage of Covered-Employee Payroll (b/d)</u>
December 31, 2023	\$21,357	\$21,357		\$284,757	7.50%
December 31, 2022	\$19,890	\$19,890		\$265,204	7.50%
December 31, 2021	\$19,885	\$19,885		\$265,128	7.50%
December 31, 2020	\$18,852	\$18,852		\$251,359	7.50%
December 31, 2019	\$16,642	\$16,642		\$221,889	7.50%
December 31, 2018	\$17,187	\$17,187		\$229,162	7.50%
December 31, 2017	\$17,226	\$17,226		\$229,675	7.50%
December 31, 2016	\$17,569	\$17,569		\$234,408	7.50%
December 31, 2015	\$19,454	\$19,454		\$259,385	7.50%

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

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

CITY OF BALATON
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2023

General Employees Fund

2023 Changes

Changes in Actuarial Assumptions:

- The investment return assumption and single discount rate were changed from 6.5% to 7.0%
- Changes in Plan Provisions:

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

2022 Changes

Changes in Actuarial Assumptions:

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

2021 Changes

Changes in Actuarial Assumptions:

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

2020 Changes

Changes in Actuarial Assumptions:

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

CITY OF BALATON
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2023

Changes in Plan Provisions:

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

2019 Changes

Changes in Actuarial Assumptions:

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

Changes in Plan Provisions:

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

2018 Changes

Changes in Actuarial Assumptions:

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

2017 Changes

Changes in Actuarial Assumptions:

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

2016 Changes

Changes in Actuarial Assumptions:

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2035 and 2.5% per year thereafter to 1.0% per year for all future years.
- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate was changed from 7.9% to 7.5%.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

2015 Changes

Changes in Plan Provisions:

- On January 1, 2015 the Minneapolis Employees Retirement Fund was merged into the General Employees Fund, which increased the total pension liability by \$1.1 billion and increased the fiduciary plan net position by \$892 million. Upon consolidation, state and employer contributions were revised.

Changes in Actuarial Assumptions:

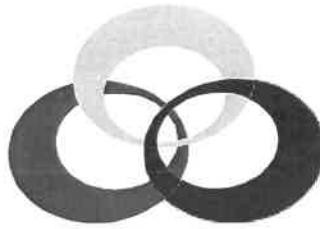
- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2030 and 2.5% per year thereafter to 1.0% per year through 2035 and 2.5% per year thereafter.

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

	Special Revenue		Total
	Ambulance	SCDG	Nonmajor Governmental Funds
ASSETS			
Cash and Cash Equivalents	\$ 120,352	\$ 7,794	\$ 128,146
Accounts Receivable	63,141	--	63,141
Notes Receivable- Current Portion	--	2,004	2,004
Due from Other Governments	--	14,185	14,185
Notes Receivable	--	2,457	2,457
<i>Total Assets</i>	183,493	26,440	209,933
DEFERRED OUTFLOWS OF RESOURCES			
Aggregated deferred outflows	--	--	--
<i>Total Assets and Deferred Outflows of Resources</i>	\$ 183,493	\$ 26,440	\$ 209,933
LIABILITIES			
Accounts Payable	\$ 197	--	\$ 197
<i>Total Liabilities</i>	197	--	197
DEFERRED INFLOWS OF RESOURCES			
Aggregated deferred inflows	--	4,461	4,461
<i>Total Liabilities and Deferred Inflows of Resources</i>	197	4,461	4,658
FUND BALANCE			
Restricted	12,910	-	12,910
Assigned	170,386	21,979	192,365
<i>Total Fund Balance</i>	183,296	21,979	205,275
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balance</i>	\$ 183,493	\$ 26,440	\$ 209,933

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

	<u>Special Revenue</u>		<u>Total Nonmajor Governmental Funds</u>
	<u>Ambulance</u>	<u>SCDG</u>	
Revenues			
Refunds and Reimbursements	\$ 325	\$ --	\$ 325
Charges for Services	70,842	--	70,842
Interest Revenue	2,419	229	2,648
Miscellaneous	--	4,230	4,230
Donations	50	--	50
Federal Grants	--	24,675	24,675
State Grants and Aids	12,910	--	12,910
Total Revenues	<u>86,546</u>	<u>29,134</u>	<u>115,680</u>
Expenditures			
Public Safety	63,086	--	63,086
Housing and Economic Development	--	29,069	29,069
Total Expenditures	<u>63,086</u>	<u>29,069</u>	<u>92,155</u>
Excess of Revenues Over (Under) Expenditures	<u>23,460</u>	<u>65</u>	<u>23,525</u>
Other Financing Sources (Uses)			
Transfers from other funds	12,200	--	12,200
Transfers to other funds	--	--	--
Net Other Financing Sources (Uses)	<u>12,200</u>	<u>--</u>	<u>12,200</u>
Net Change in Fund Balance	35,660	65	35,725
Fund Balance at Beginning of Period	147,636	21,914	169,550
Fund Balance at End of Period	<u>\$ 183,296</u>	<u>\$ 21,979</u>	<u>\$ 205,275</u>



Kinner & Company Ltd
Certified Public Accountants

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

Honorable Mayor and Members of the Council
City of Balaton
Balaton, Minnesota 56115

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the remaining fund information of the City of Balaton, Minnesota, as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the City of Balaton, Minnesota's basic financial statements and have issued our report thereon dated April 8, 2024.

Internal Control over Financial Reporting

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

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

A deficiency in *internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Prior and Current Findings and Responses, as item 2023-1, 2023-2 and, 2023-3 to be material weaknesses.

Compliance and Other Matters

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

Minnesota Legal Compliance

In connection with our audit, nothing came to our attention that caused us to believe that the City of Balaton, Minnesota failed to comply with the provisions of the contracting and bidding, deposits and 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 Balaton, Minnesota's noncompliance with the above referenced provisions, insofar as they relate to accounting matters.

City of Balaton, Minnesota's Response to Findings

City of Balaton's responses to the internal control and legal compliance findings identified in our audit have been included in the Schedule of Prior and Current 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 Report

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

Kinner + Company Ltd.

Kinner & Company Ltd
Certified Public Accountants

April 8, 2024

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

STATUS OF PRIOR AUDIT FINDINGS

Finding 2022-1: A material weakness was reported due to the lack of segregation of duties within the organization. This finding continues to exist and has been restated as Finding 2023-1.

Finding 2022-2: A material weakness was reported due to the auditor proposing material journal entries that resulted in significant changes to the financials. This finding continues to exist and has been restated as Finding 2023-2.

Finding 2022-3: A material weakness was reported due to the Council and Mayor were not following approved policy on sick leave severance. This finding does not continue to exist in the current year.

Finding 2022-4: A material weakness was reported due to audit procedures finding that the city office did not receive the entire Lyon County reimbursement grant resulting in \$45,048 of additional revenue recorded in the Ambulance fund. This finding does not continue to exist in the current year.

Finding 2022-5: A material weakness was reported due to issues with the ambulance billing with large amounts sent to a collection agency. This finding continues to exist and has been restated as Finding 2023-3.

Finding 2022-6: A finding existed according to the Minnesota Compliance Guide, the City did not maintain sufficient collateral for deposits. This finding does not continue to exist in the current year.

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

2023-2 Finding: Audit Adjustments

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

Effect: A control deficiency exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions to prevent or detect misstatements in the financial statements on a timely basis. One control deficiency that typically is considered significant is identification by the auditor of a material misstatement in the financial statements not initially identified by the entity's internal controls. This could affect the City's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements.

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

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

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

Corrective Action Plan (CAP):

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

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

CURRENT YEAR FINANCIAL STATEMENT FINDINGS

2023-1 Finding: Segregation of Duties

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

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

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

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

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

Corrective Action Plan (CAP):

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

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

2023-3 Finding: The ambulance billing continues to have write offs. The billing company was behind on 2023 billings.

Criteria: A City employee or official should be aware of all billings and receivables monthly for better tracking and proper recording of revenues and receivables.

Condition: The external auditor's staff cannot be considered to be part of the City's internal control.

Cause: The City has had turnover in the accounting function. There has been no follow-up on these billings or receivables.

Effect: A control deficiency exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions to prevent or detect misstatements of the financial statements on a timely basis. One control deficiency that typically is considered significant is identification by the auditor of a material misstatement in the financial statements not initially identified by the entity's internal controls. This could affect the City's ability to initiate, record, process and report financial data.

Recommendation: We recommend that the Mayor, Council, City clerk and Deputy clerk review all billings and receivables monthly for proper recording.

Council Response and Corrective Action Plan: There is no disagreement with the audit finding. The city approved a new ambulance billing company and they have started January 2024.

