

NOTES TO FINANCIAL STATEMENTS

**CITY OF DELANO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Delano, located in Wright County in Minnesota, conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the more significant policies.

Financial Reporting Entity

As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include those of the City of Delano (the City), the Delano Economic Development Authority (the EDA), a blended component unit of the City, and the Delano Water, Light, and Power Commission, a discretely presented component unit. A component unit is a legally separate entity for which the primary government is financially accountable, or for which the exclusion of the component unit would render the financial statements of the primary government misleading. The criteria used to determine if the primary government is financially accountable for a component unit include whether or not the primary government appoints the voting majority of the potential component unit's board, is able to impose its will on the potential component unit, is in a relationship of financial benefit or burden with the potential component unit, or is fiscally depended upon by the potential component unit. The EDA is reported as a blended component unit of the City because the members of the City council serve as the governing board of the EDA.

Discretely Presented Component Unit

In conformity with accounting principles generally accepted in the United States of America, the financial statements of the component unit have been included in the financial reporting entity as a discretely presented component Unit.

Delano Water, Light, and Power Commission

The component unit column of the accompanying financial statements includes the financial data of the Delano Water, Light, and Power Commission (the Commission). This financial information is shown in a separate column to emphasize the Commission is legally separate from the City.

The Commission was established under Minnesota Statute 412.321 to manage, control, and operate the light, power, and water utilities of the City. It is governed by a five-member commission appointed by the City's elected council. One Commissioner also served as a Council Member of the City during 2023. The rates for user charges and bond issuance authorization are approved by the commission and the legal liability for the general obligation portion of the Commission's debt remains with the Commission. The separate financial statements of the Commission may be obtained by writing to the Commission at P.O. Box 65, Delano, MN 55328, or by phone at (763) 972-0557.

**CITY OF DELANO, MINNESOTA
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NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basic Financial Statements

Government-Wide Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its blended component units. These statements include the financial activities of the overall City government. Eliminations have been made to minimize the double counting of internal activities. 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 to external parties for support.

In the government-wide statement of net position, both the governmental and business-type activities columns: (a) are presented on a consolidated basis by column; and (b) are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The City's net position is reported in three parts: (1) net investment in capital assets; (2) restricted; and (3) unrestricted. The City first utilizes restricted resources to finance qualifying activities.

The statement of activities demonstrates the degree to which the direct expenses of each function of the City's governmental activities and different business-type activities are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. Program revenues include: (1) fees, fines, and charges paid by the recipients of goods, services, or privileges provided by a given function or activity; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or activity. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements

The fund financial statements provide information about the City's funds, including its blended component units. Separate statements for each fund category - governmental and proprietary - are presented. The emphasis of governmental and proprietary fund financial statements is on major individual governmental and enterprise funds, with each displayed as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor funds. The City reports all proprietary funds as major funds.

The City reports the following major governmental funds:

General Fund

The general fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

**CITY OF DELANO, MINNESOTA
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NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basic Financial Statements (Continued)

Fund Financial Statements (Continued)

Capital Projects Fund

The Capital Projects Fund accounts for projects and equipment purchases completed by the City. Annually the City budgets transfers into this fund, mostly from the General Fund, to pay for those equipment purchases and projects.

Debt Service Fund

The Debt Service Fund accounts for the accumulation of resources and payment of resources and payment of general obligation bonds principal and interest from governmental resources and special assessment bond principal and interest from special assessment levies when the City is obligated in some manner for the payment.

TIF #13 Granite Works Redevelopment

The TIF #13 Granite Works Redevelopment Special Revenue Fund accounts for the bond proceeds, payments and economic development activity for the Granite Works Redevelopment TIF district.

The City reports the following major proprietary funds:

Municipal Liquor Fund

The municipal liquor fund accounts for customer sales that are used to finance the City owned liquor store operating expenses and provide funds for general operations of the City.

Sewer Fund

The sewer fund accounts for the operations of the City-owned sanitary sewer utility system.

Additionally, the City reports the following fiduciary fund types:

Custodial Funds

The Motor Vehicle, and Department of Natural Resources funds account for fees collected for other government agencies.

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NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus and Basis of Accounting

The government-wide, proprietary fund, and fiduciary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of 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 provider have been met. Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. The City considers all revenues to be available if they are collected within 60 days after the end of the current period. Property and other taxes, licenses, and interest are all considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

All proprietary funds are accounted for using the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred. Proprietary funds distinguish operating revenues and expenses from nonoperating 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 Municipal Liquor Store and Sewer Funds are charges to customers for sales and services. Operating expenses for these funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Adoption of New Accounting Standards

In May 2020, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*. This standard defines a subscription-based information technology arrangement (SBITA); establishes that a SBITA results in a right-to-use subscription asset (an intangible asset) and a corresponding subscription liability; provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and requires note disclosures regarding a SBITA.

**CITY OF DELANO, MINNESOTA
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NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Adoption of New Accounting Standards (Continued)

The City adopted the requirements of the guidance effective January 1, 2023, and has applied the provisions of this standard to the beginning of the period of adoption. Beginning fund balance/net position was not restated due to the implementation of GASB 96. The City did not identify any applicable arrangement, so the implementation of this standard did not have any effect on the City's financial statements.

Budgets

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriation budgets are adopted for the General Fund and certain Special Revenue Funds.

Budgeted amounts are reported as originally adopted, or as amended by the City Council or the Commission. Budgeted expenditure appropriations lapse at year-end.

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

1. Prior to September 1, the administrator submits to the City Council a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments, and the final tax levy and General Fund budget are adopted.
3. The City Administrator is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of the General Fund must be approved by the City Council.
4. Formal budgetary integration is employed as a management control device during the year for the General Fund, Special Revenue Funds, and Enterprise Funds. Formal budgetary integration is not employed for the capital projects and debt service funds.
5. Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America except for the enterprise funds where capital expenditures are budgeted for as an operating expense. Budgeted amounts presented are as originally adopted.

Cash and Investments

Cash and investment balances from all funds are combined and invested to the extent available in certificates of deposits and other allowable investments in accordance with Minnesota Statutes. Earnings from investments are allocated to the respective funds on the basis of applicable cash balance participation by each fund.

**CITY OF DELANO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
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NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Investments (Continued)

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

Short-term highly liquid debt instruments (including commercial paper, banker's acceptances and U.S. Treasury and Agency obligations) purchased with a remaining maturity of one year or less are reported at amortized cost. Other investments are reported at fair value.

Restricted cash consists of amounts that have been established to reflect conditions of bond issues.

Property Tax Revenue Recognition

Property tax levies are set by the City Council in December of each year, and are certified to the County Auditor for collection in the following year. In Minnesota, counties act as collection agents for all property taxes. Such taxes become a lien on property on January 1 and are recorded as receivables by the City at that date. Real property taxes may be paid by taxpayers in two equal installments on May 15 and October 15. Personal property taxes may be paid on February 28 and June 30. The County provides tax settlements to cities and other taxing districts three times a year.

Within the governmental fund financial statements, the City recognizes property tax revenue when it becomes both measurable and available to finance expenditures of the current period. Taxes which remain unpaid at December 31 are classified as delinquent and are not recognized as revenue in the governmental fund financial statements because they are not known to be available to finance current expenditures. The portion of delinquent taxes not collected by the City in January is fully offset by unavailable resources in the governmental funds because it is not available to finance current expenditures. Property tax revenue in governmental activities is susceptible to full accrual on the government-wide statements. No allowances for uncollectible taxes have been provided because such amounts are not expected to be material.

Special Assessment Revenue Recognition

Special assessments are levied against benefited properties for the cost or a portion of the cost of special assessment improvement projects in accordance with Minnesota Statutes. These assessments are collectible by the City over a term of years usually consistent with the term of the related bond issue. Collection of annual installments (including interest) is handled by the County Auditor in the same manner as property taxes. Property owners are allowed to (and often do) prepay future installments without interest or prepayment penalties.

**CITY OF DELANO, MINNESOTA
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NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Special Assessment Revenue Recognition (Continued)

Within the fund financial statements, the revenue from special assessments is recognized by the City when it becomes measurable and available to finance expenditures of the current fiscal period. In practice, current and delinquent special assessments received by the City are recognized as revenue for the current year. Special assessments are collected by the County and remitted by December 31 (remitted to the City the following January) and are also recognized as revenue for the current year. All remaining delinquent and special assessments receivable in governmental funding are completely offset by unavailable resources. Special assessment revenue in governmental activities is susceptible to full accrual on the government-wide statements.

Once a special assessment roll is adopted, the amount attributed to each parcel is a lien upon that property until full payment is made or the amount is determined to be excessive by the City Council or court action. If special assessments are allowed to go delinquent, the property is subject to tax forfeit sale and the first proceeds of that sale (after costs, penalties, and expenses of sale) are remitted to the City in payment of delinquent special assessments. Generally, the City will collect the full amount of its special assessments not adjusted by City Council or court action. Pursuant to Minnesota Statutes, a property shall be subject to a tax forfeit sale after three years unless it is homesteaded, agricultural, or seasonal recreational land in which event the property is subject to such sale after five years.

Utility Billing

The City bills customers monthly for electric, sewer, and water utility services. The City bills and recognizes the electric, sewer, and water services revenues on a monthly basis.

Inventories

Materials and supplies, if material, are recorded at original cost and are reported under the consumption method in the Governmental Funds. Liquor store inventories are recorded at average cost.

Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables are classified as Due from Other Funds, Due to Other Funds, Advances to Other Funds, or Advances from Other Funds on the balance sheet of the fund financial statement.

Capital Assets

The City capitalizes the following assets: all land and land improvements, assets exceeding \$2,000 and have a useful life exceeding one year. Capital assets are capitalized at historical cost, estimated historical cost, or in the case of contributions, at their estimated acquisition value at the time received. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are expensed as incurred.

**CITY OF DELANO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
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NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets (Continued)

Capital assets related to general governmental activities are recorded in the government-wide statements, but are not reported in the fund financial statements. Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are normally sold for an immaterial amount when declared as no longer needed for City purposes, no salvage value is taken into consideration for depreciation purposes.

Useful lives vary from 10 to 30 years for land improvements, 10 to 50 years for buildings and building improvements, 6 to 50 years for infrastructure and infrastructure improvements, 12 years for leasehold improvements, and 3 to 40 years for furniture, fixtures, vehicles, equipment, and machinery. Capital assets not being depreciated include land and construction in progress. As of January 1, 2004, the City capitalized infrastructure assets for governmental activities prospectively.

Property, plant, and equipment used by proprietary funds are stated at cost or estimated historical cost. Contributed capital assets are recorded at estimated acquisition value at the time received.

Net Pension Asset/Liability

For purposes of measuring the net pension asset, 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 Delano Firefighters Relief Association Plans (FRA), and additions to/deductions from PERA's and the FRA's fiduciary net position have been determined on the same basis as they are reported by PERA and the FRA. For this purpose, plan contributions and benefit payments (including refunds of 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.

Compensated Absences

Vacation

City employees earn vacation days based upon the number of completed years of service. The City compensates eligible employees who retire from active service or are terminated in good standing after 20 years of employment with the City for unused vacation, not to exceed 30 days, upon separation. Accordingly, the expenditure for vacation is recognized as it is used in the governmental funds and is recognized as it is earned in the proprietary funds. Accrued vacation (unused) is recorded in the proprietary fund level statements and in the government-wide statements as compensated absences.

**CITY OF DELANO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
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NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Compensated Absences (Continued)

Sick Leave

Employees are entitled to paid sick leave at various rates for each month of full-time service. Sick pay is recorded as an expenditure when payment is made. Full-time employees of the City may accumulate one eight-hour day of sick leave for each month of service, not to exceed 30 days. The City compensates eligible employees who retire from active service or are terminated in good standing after 20 years of employment with the City for unused sick leave, not to exceed 30 days, upon separation.

Long-Term Obligations

In the government-wide financial statements, long-term debt, and other long-term obligations are reported as liabilities in the applicable governmental and business-type activities. Bond premiums and discounts are amortized over the life of the bonds using the straight-line method.

In the governmental fund financial statements, bond premiums and discounts are recognized during the current period. The face amount of the debt issue is reported as another financing source. Bond premiums and discounts on debt issuances are reported as other financing sources and uses. Bond issuance costs are reported as debt service expenditures, in the year they are incurred.

Fund Balance

In the fund financial statements, governmental funds report fund balances in the classifications that disclose constraints for which amounts in those funds can be spent. These classifications are as follows:

- **Nonspendable.** Portion of fund balances related to prepaids, inventories, long-term receivables, and corpus on any permanent fund.
- **Restricted.** Funds are constrained from outside parties (statute, grantors, bond agreements, etc.).
- **Committed.** Funds are established and modified by a resolution approved by the City Council.
- **Assigned.** Consists of internally imposed constraints approved by the City Finance Director.
- **Unassigned.** Is the residual classification for the general fund and also reflects the negative residual amounts in other funds.

**CITY OF DELANO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
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NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Balance (Continued)

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, it is the City's policy to use restricted first, then unrestricted fund balance.

When an expenditure is incurred for purposes for which committed, assigned, and unassigned amounts are available, it is the City's policy to use committed first, then assigned, and finally unassigned amounts.

The City formally adopted a fund balance policy for the General Fund. The policy establishes a year-end target unassigned fund balance of 55% of the fund's annual operating expenditures and transfers out. Unassigned fund balance in excess of the desired level will be transferred and committed to the General Capital Improvement Fund pursuant to Council approval.

Interfund Transactions

Quasi-external transactions are accounted for as revenues, expenditures, or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses made on behalf of another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures or expenses in the fund that is reimbursed.

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers.

All Interfund transactions are eliminated except for activity between governmental activities and business-type activities for presentation in the government-wide statement of net position and statement of activities.

Allowance for Uncollectible Accounts

Allowance for uncollectible accounts receivable are established when City management believes that some portion of the receivable will not be collected. Management's estimate of the required allowance is based upon historical experience and analysis of receivables on a specific identification basis.

Deferred Inflows and Outflows of Resources

The City's governmental fund financial statements report a separate section for deferred inflows of resources. The separate financial statement element reflects an increase in fund balance that applies to a future period. The City will not recognize the related revenue until a future event occurs. The deferred inflow of resources occurs because governmental fund revenues are not recognized until available (collected not later than 60 days after the end of the City's year) under the modified accrual basis of accounting. In addition, the City reports deferred inflows of resources related to leases receivable.

**CITY OF DELANO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
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NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Inflows and Outflows of Resources (Continued)

Deferred inflows and outflows of resources reported in governmental activities, represents items we relate to the City's net pension accounting, deferred gains/losses on debt refunding, and leases and are to be recognized in future periods.

Deferred inflows and outflows of resources reported in the proprietary funds, represent items which are related to the City's net pension accounting and are to be recognized in future periods.

Deferred inflows of resources reported in the discretely presented component unit represent regulatory collections for amounts which are permit payments that have been collected from developers and new property owners for future capital expenditures related to the acquisition of a service territory from another utility as well as state conservation programs. In addition, deferred inflows and outflows of resources are also reported to represent items which are related to the Commission's net pension accounting and are to be recognized in future periods.

Leases

The City determines if an arrangement is a lease at inception. Lessee leases are included in right-to-use lease assets (lease assets) and lease liabilities in the statement of net position. Lessor leases are included in lease receivables and deferred inflow of resources in the statement of net position and fund financial statements.

Lease receivables represent the City's claim to receive lease payments over the lease term, as specified in the contract, in an exchange or exchange-like transaction. Lease receivables are recognized at commencement date based on the present value of expected lease payments over the lease term, reduced by any provision for estimated uncollectible amounts. Interest revenue is recognized ratably over the contract term.

Deferred inflows of resources related to leases are recognized at the commencement date based on the initial measurement of the lease receivable, plus any payments received from the lessee at or before the commencement of the lease term that relate to future periods, less any lease incentives paid to, or on behalf of, the lessee at or before the commencement of the lease term. The deferred inflows related to leases are recognized as lease revenue in a systematic and rational manner over the lease term.

Lease assets represent the City's control of the right to use an underlying asset for the lease term, as specified in the contract, in an exchange or exchange-like transaction. Lease assets are recognized at the commencement date based on the initial measurement of the lease liability, plus any payments made to the lessor at or before the commencement of the lease term and certain direct costs. Lease assets are amortized in a systematic and rational manner over the shorter of the lease term or the useful life of the underlying asset.

**CITY OF DELANO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
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NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (Continued)

Lease liabilities represent the City's obligation to make lease payments arising from the lease. Lease liabilities are recognized at the commencement date based on the net present value of expected lease payments over the lease term, less any lease incentives. Interest expense is recognized ratably over the contract term.

The lease term may include options to extend or terminate the lease when it is reasonably certain that the City will exercise that option. The City recognizes payments for short-term leases with a lease term of 12 month or less as expenses as incurred, and these leases are not included as lease liabilities or right-to-use lease assets on the statement of net position.

Land Held for Resale

Assets held for resale represents land purchased with the intent of selling the property for future development. This is recorded at the lower of cost or estimated market value.

Use of Estimates

The preparation of financial statements in accordance with GAAP requires management to make estimates that affect amounts reported in the financial statements during the reporting period. Actual results could differ from such estimates.

NOTE 2 DEPOSITS AND INVESTMENTS

Deposits

The cash balances of substantially all funds are pooled by the City for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2023, based on market prices. Investment earnings on cash and pooled investments are credited to the General fund. In addition, other funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants.

In accordance with applicable Minnesota Statutes, the City maintains deposits at financial institutions authorized by the City Council. All such depositories are members of the Federal Reserve System. Minnesota Statutes require that all deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by insurance or corporate surety bonds.

**CITY OF DELANO, MINNESOTA
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NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

Deposits (Continued)

Authorized collateral includes U.S. government treasury bills, notes, and or bonds; securities issued by a U.S. government agency; general obligations of local governments rated “A” or better; revenue obligations of a state or local governments rated “AA” or better; irrevocable standby letters of credit issue by a Federal Home Loan Bank; and time deposits insured by a federal agency. Minnesota Statutes require securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or at an account at a trust department of a commercial bank or other financial institution not owned or controlled by the depository.

Custodial Credit Risk – Deposits

In the case of deposits, custodial credit risk is the risk that in the event of bank failure, the City’s deposits may not be returned to it. The City’s deposit policy does not provide additional restrictions beyond Minnesota state statutes.

As of December 31, 2023, the City’s deposits were 100% insured and/or collateralized in accordance with Minnesota Statute 118A.03, Subd. 1.

Investments

The City may also invest idle funds as authorized by Minnesota Statutes as follows:

- Direct obligations or obligations guaranteed by the United States or its agencies.
- Shares of investment companies registered under the Federal Investment Company Act of 1940 and receives the highest credit rating, is rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of 13 months or less.
- General obligations rated “A” or better; revenue obligations rated “AA” or better.
- General obligations of the Minnesota Housing Finance Agency rated “A” or better.
- Bankers’ acceptances of United States banks eligible for purchase by the Federal Reserve System.
- Commercial paper issued by United States corporations or their Canadian subsidiaries, of highest quality category by at least two nationally recognized rating agencies, and maturing 270 days or less.

**CITY OF DELANO, MINNESOTA
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NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

Investments (Continued)

- Guaranteed investment contracts guaranteed by United States commercial banks or domestic branches of foreign banks, or United States insurance companies if similar debt obligations of the issuer or the collateral pledged by the issuer is in one of the top two rating categories.
- Obligations by a school district with an original maturity not exceeding 13 months and (i) rated in the highest category by a national bond rating service, or (ii) enrolled in the credit enhancement program.
- Repurchase or reverse purchase agreements and security 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.

As of December 31, 2023, the City had the following investments in its pool:

Investment	Credit Rating	Fair Value	Maturity		
			Less than 1 Year	1 to 5 Years	More than 5 Years
Money Market Accounts	NR	\$ 222,135	\$ 222,135	\$ -	\$ -
Certificates of Deposit	NR	2,907,300	-	2,907,300	-
Mutual Funds	NR	195,474	195,474	-	-
Total		<u>\$ 3,324,909</u>	<u>\$ 417,609</u>	<u>\$ 2,907,300</u>	<u>\$ -</u>

NR - Not Rated

NA - Not Applicable

Interest Rate Risk

This is the risk that arises because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The City does not have a formal policy for managing interest rate risk.

Credit Risk

Minnesota Statutes restrict the types of investments that the City may invest in. The City does not have a formal policy for managing credit risk. The City's external investment pool investment is with the 4M Fund which is regulated by Minnesota Statutes and the Board of Directors of the League of Minnesota Cities. The 4M Fund is an unrated 2a7-like pool and the fair value of the position in the pool is the same as the value of pool shares.

**CITY OF DELANO, MINNESOTA
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NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

Investments (Continued)

Concentration of Credit Risk

This is the risk associated with investing a significant portion of the City's investments (considered 5% or more) in the securities of a single issue, excluding U.S. Guaranteed investments (such as Treasuries), investment pools, and mutual funds. For the year ended December 31, 2023, the City had no investments that qualified as a concentration of credit risk.

The deposits and investments are presented in the financial statements as follows:

Primary Government:

Cash	\$ 13,494,297
Petty Cash	2,350
Investments	3,324,909
Total Cash and Investments	<u>\$ 16,821,556</u>

Discretely Presented Component Unit:

Cash and Cash Equivalents	<u>\$ 2,936,602</u>
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Custodial Fund:

Cash and Cash Equivalents	<u>\$ 167,173</u>
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Fair Value Measurements

The City uses fair value measurements to record fair value adjustments to certain asset and liabilities and to determine fair value disclosures.

The City follows an accounting standard which defines fair value, establishes framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value, and requires expanded disclosures about fair value measurements. In accordance with this standard, the City has categorized its investments, based on the priority of inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quotes and prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Financial assets and liabilities recorded on the combined statements of financial position are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Financial assets and liabilities are valued using inputs that are unadjusted quoted prices in active markets accessible at the measurement date of identical financial assets and liabilities.

Level 2 – Financial assets and liabilities are valued based on quoted prices for similar assets or inputs that are observable, either directly or indirectly, for substantially the full term through corroboration with observable market data.

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NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

Fair Value Measurements (Continued)

Level 3 – Financial assets and liabilities are valued using pricing inputs which are unobservable for the asset, inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset.

Fair value measurements are as follows at December 31, 2023:

Investment	Level 1	Level 2	Level 3	Total
Certificates of Deposit	\$ -	\$ 2,907,300	\$ -	\$ 2,907,300
Mutual Funds	-	195,474	-	195,474
Total	<u>\$ -</u>	<u>\$ 3,102,774</u>	<u>\$ -</u>	<u>3,102,774</u>
Investments Measured at Amortized Cost				222,135
Total				<u>\$ 3,324,909</u>

NOTE 3 CAPITAL ASSETS

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 5,899,887	\$ 215,991	\$ -	\$ 6,115,878
Construction in Progress	4,732,474	12,565,306	12,063,368	5,234,412
Total Capital Assets, Not Being Depreciated	10,632,361	12,781,297	12,063,368	11,350,290
Capital Assets, Being Depreciated:				
Land Improvements	4,662,800	-	-	4,662,800
Buildings and Building Improvements	8,951,095	4,369,771	-	13,320,866
Infrastructure and Infrastructure Improvements	33,889,049	4,992,678	-	38,881,727
Furniture, Fixtures, Vehicles, Equipment, and Machinery	6,242,215	189,038	153,728	6,277,525
Total Capital Assets, Being Depreciated	53,745,159	9,551,487	153,728	63,142,918
Accumulated Depreciation for:				
Land Improvements	2,462,671	184,409	-	2,647,080
Buildings and Building Improvements	3,412,534	258,056	-	3,670,590
Infrastructure and Infrastructure Improvements	7,015,005	874,708	-	7,889,713
Furniture, Fixtures, Vehicles, Equipment, and Machinery	3,029,234	416,919	153,728	3,292,425
Total Accumulated Depreciation	15,919,444	1,734,092	153,728	17,499,808
Total Capital Assets, Being Depreciated, Net	37,825,715	7,817,395	-	45,643,110
Governmental Activities Capital Assets, Net	<u>\$ 48,458,076</u>	<u>\$ 20,598,692</u>	<u>\$ 12,063,368</u>	<u>\$ 56,993,400</u>

CITY OF DELANO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 3 CAPITAL ASSETS (CONTINUED)

Capital asset activity for business-type activities during the year ended December 31, 2023, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 131,434	\$ -	\$ -	\$ 131,434
Construction in Progress	2,032,531	509,378	2,392,095	149,814
Total Capital Assets, Not Being Depreciated	2,163,965	509,378	2,392,095	281,248
Capital Assets, Being Depreciated:				
Land Improvements	72,500	-	-	72,500
Buildings and Building Improvements	11,625,159	4,200,086	-	15,825,245
Infrastructure and Infrastructure Improvements	18,644,325	29,507	-	18,673,832
Furniture, Fixtures, Vehicles, Equipment, and Machinery	801,748	8,113	119,210	690,651
Leasehold Improvements	190,550	-	-	190,550
Right-to-Use Assets, Being Amortized:				
Buildings	309,693	-	-	309,693
Total Capital Assets, Being Depreciated	31,643,975	4,237,706	119,210	35,762,471
Accumulated Depreciation for:				
Land Improvements	56,510	2,340	-	58,850
Buildings and Building Improvements	5,325,125	231,138	-	5,556,263
Infrastructure and Infrastructure Improvements	5,855,145	379,084	-	6,234,229
Furniture, Fixtures, Vehicles, Equipment, and Machinery	501,490	59,991	119,210	442,271
Leasehold Improvements	98,475	17,942	-	116,417
Accumulated Amortization:				
Buildings	95,290	95,290	-	190,580
Total Accumulated Depreciation and Amortization	11,836,745	785,785	119,210	12,598,610
Total Capital Assets, Being Depreciated and Amortized, Net	19,807,230	3,451,921	-	23,163,861
Business-Type Activities Capital Assets, Net	<u>\$ 21,971,195</u>	<u>\$ 3,961,299</u>	<u>\$ 2,392,095</u>	<u>\$ 23,445,109</u>

**CITY OF DELANO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 3 CAPITAL ASSETS (CONTINUED)

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

	Beginning Balance	Increases	Decreases	Ending Balance
Discrete Component Unit:				
Capital Assets, Not Being Depreciated:				
Construction in Progress	\$ 3,207,662	\$ 1,066,829	\$ 664,201	\$ 3,610,290
Intangible Asset (Service Territory)	1,071,422	10,647	-	1,082,069
Land	8,602	-	-	8,602
Total Capital Assets, Not Being Depreciated	4,287,686	1,077,476	664,201	4,700,961
Capital Assets, Being Depreciated:				
Utility Plant:				
Electric	24,318,318	3,613,034	296,444	27,634,908
Water	22,526,203	869,701	17,737	23,378,167
Right-to-Use Assets, Being Amortized:				
Electric	1,703,887	-	16,221	1,687,666
Total Utility Plant	48,548,408	4,482,735	330,402	52,700,741
Accumulated Depreciation and Amortization	22,317,899	1,568,898	255,038	23,631,759
Total Capital Assets, Being Depreciated and Amortized, Net	26,230,509	2,913,837	75,364	29,068,982
Discrete Component Unit Capital Assets, Net	<u>\$ 30,518,195</u>	<u>\$ 3,991,313</u>	<u>\$ 739,565</u>	<u>\$ 33,769,943</u>

Depreciation and amortization expense was charged to functions as follows:

Governmental Activities:	
General Government	\$ 103,381
Public Safety	354,045
Highways and Streets	838,387
Economic Development	8,745
Community Services	429,534
Total Depreciation Expense, Governmental Activities	<u>\$ 1,734,092</u>
Business-Type Activities:	
Municipal Liquor	\$ 119,277
Sewer	666,508
Total Depreciation and Amortization Expense, Business-Type Activities	<u>\$ 785,785</u>
Discrete Component Unit:	
Total Depreciation and Amortization Expense	<u>\$ 1,568,898</u>

CITY OF DELANO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 4 CITY INDEBTEDNESS

The following is a schedule of changes in City indebtedness for the year ended December 31, 2023:

	Beginning of Year	Additions	Retirements	End of Year	Due within One Year
Governmental Activities:					
G.O. Bonds	\$ 8,515,000	\$ 7,205,689	\$ 625,000	\$ 15,095,689	\$ 480,000
G.O. Tax Increment Bonds	2,790,000	4,210,000	2,565,000	4,435,000	30,000
G.O. Special Assessment Bonds	9,665,000	-	530,000	9,135,000	560,000
G.O. Revenue Bonds	1,117,160	2,206,168	115,680	3,207,648	116,800
G.O. Bonds - Commission ++	1,889,944	3,675,000	94,862	5,470,082	96,995
G.O. Tax Abatements	1,670,000	-	80,000	1,590,000	120,000
Premium on Bonds	1,186,273	1,153,846	155,119	2,185,000	-
Compensated Absences	229,846	189,106	172,722	246,230	114,562
Total Governmental Activities	27,063,223	18,639,809	4,338,383	41,364,649	1,518,357
Business-Type Activities:					
G.O. Revenue	3,997,896	3,618,143	359,458	7,256,581	381,205
Discount on Bonds	(342)	-	(342)	-	-
Premium on Bonds	214,111	297,196	18,699	492,608	-
Compensated Absences	68,520	50,410	48,970	69,960	31,995
Leases Payable	217,549	-	94,909	122,640	97,747
Total Business-Type Activities	4,497,734	3,965,749	521,694	7,941,789	510,947
Total Debt - Primary Government	\$ 31,560,957	\$ 22,605,558	\$ 4,860,077	\$ 49,306,438	\$ 2,029,304
Discrete Component Unit:					
Loan Payable	\$ 1,889,944	\$ 3,675,000	\$ 94,862	\$ 5,470,082	\$ 96,995
Notes from Direct Borrowings	1,695,000	-	535,000	1,160,000	565,000
Lease Liability	1,538,426	-	166,152	1,372,274	170,262
Service Territory Acquisition	160,971	10,647	60,971	110,647	60,647
Compensated Absences	74,069	8,302	-	82,371	20,593
Total	\$ 5,358,410	\$ 3,693,949	\$ 856,985	\$ 8,195,374	\$ 913,497

++ These amounts consist of portions of the City's Series 2016A, 2018A, 2020A and 2023A G.O. Bonds and G.O. Revenue Bonds that were loaned to the Commission for infrastructure improvements. The Commission is repaying the loan to the City in accordance with the original terms of the bonds issued by the City.

CITY OF DELANO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 4 CITY INDEBTEDNESS (CONTINUED)

The compensated absences balances are liquidated by the General Fund and enterprise funds.

City indebtedness at December 31, 2023, is composed of the following:

Description	Initial Amount Issued	Maturity Date	Net Interest Rate	Outstanding Principal
Governmental Activities:				
G.O. Bonds:				
2009 Street Reconstruction Bonds	\$ 410,000	2/1/2025	2.00 - 4.00%	\$ 130,000
2013 Street Reconstruction Bonds	4,405,000	2/1/2034	2.00 - 3.75%	3,995,000
2014 Improvement Bonds	905,000	8/1/2035	2.10 - 3.50%	685,000
2016 Street Reconstruction Refunding Bonds	1,165,000	2/1/2028	2.00 - 3.00%	625,000
2020 Street Reconstruction Bonds	965,000	2/1/2041	2.00 - 5.00%	895,000
2021 Street Reconstruction Bonds	820,000	2/1/2042	2.00 - 5.00%	820,000
2021 Improvement Bonds	740,000	2/1/2042	2.00 - 5.00%	740,000
2023 Street Reconstruction Bonds	7,205,689	2/1/2044	4.00 - 5.00%	7,205,689
G.O. Tax Increment Bonds:				
2016 Tax Increment Refunding Bonds	355,000	2/1/2030	2.25 - 3.00%	225,000
2023 Tax Increment Refunding Bonds	4,210,000	2/1/2049	4.00 - 5.00%	4,210,000
G.O. Special Assessment Bonds:				
2016 Improvement Bonds	4,450,000	2/1/2036	2.75 - 3.00%	3,410,000
2018 Improvement Bonds	2,625,000	2/1/2039	3.00 - 3.50%	2,220,000
2020 Improvement Bonds	275,000	2/1/2041	2.00 - 5.00%	235,000
2021 Improvement Bonds	3,455,000	2/1/2042	2.00 - 5.00%	3,270,000
G.O. Revenue Bonds:				
2016 Storm Water Bonds	175,000	2/1/2036	2.75 - 3.00%	130,000
2016 Storm Water Refunding Bonds	890,000	2/1/2028	2.00 - 3.00%	475,000
2020 Storm Water Bonds	426,720	2/1/1941	2.00 - 5.00%	396,480
2023 Storm Water Bonds	850,735	2/1/2044	4.00 - 5.00%	850,735
Utility G.O. Bonds 2023A	1,355,433	2/1/2044	4.00 - 5.00%	1,355,433
G.O. Abatement Bonds:				
2015 Abatement Bonds	895,000	2/1/2029	1.20 - 2.50%	510,000
2021 Abatement Bonds	1,080,000	2/1/2042	2.00 - 5.00%	1,080,000
G.O. Bonds - Commission ++	Various	2041	2.00 - 5.00%	5,470,082
Premium on Bonds				2,185,000
Compensated Absences				246,230
Total Governmental Activities				<u>\$ 41,364,649</u>
Business-Type Activities:				
G.O. Revenue Bonds:				
2005 Sewer G.O. Loan	\$ 1,630,000	12/1/2025	4.14%	\$ 525,000
2016 Sanitary Sewer G.O. Bonds	495,000	2/1/2036	2.75 - 3.00%	380,000
2020 Sanitary Sewer Bonds	665,607	2/1/2041	2.00 - 5.00%	618,438
2021 Sanitary Sewer Bonds	2,180,000	2/1/2042	2.00 - 5.00%	2,115,000
2023 Sanitary Sewer Bonds	3,618,143	2/1/2049	4.00 - 5.00%	3,618,143
Premium on Bonds				492,608
Lease Liability				122,640
Compensated Absences				69,960
Total Business-Type Activities				<u>\$ 7,941,789</u>
Discrete Component Unit:				
Notes from Direct Borrowings:				
2005 Water G.O. Loan	\$ 7,160,000	12/1/2025	4.14%	\$ 1,055,000
Electric Revenue Loan	700,000	12/1/2025	4.14%	105,000
Loan Payable:				
Water G.O. Revenue Bonds	900,000		2.75 - 3.00%	660,000
Utility G.O. Bonds 2018A	450,000	2/1/2039	3.00 - 3.50%	380,000
Utility G.O. Bonds 2020A	812,673	2/1/2041	2.00 - 5.00%	755,082
Utility G.O. Bonds 2023A	3,675,000	2/1/2044	4.00 - 5.00%	3,675,000
Other Long-Term Liabilities:				
Service Territory Acquisition				110,647
Lease Liability				1,372,274
Compensated Absences				82,371
Total Discrete Component Unit				<u>\$ 8,195,374</u>

++ These amounts consist of portions of the City's Series 2016A, 2018A, 2020A and 2023A G.O. Bonds that were passed through to the Commission for infrastructure improvements.

**CITY OF DELANO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 4 CITY INDEBTEDNESS (CONTINUED)

Minimum annual principal and interest payments required to retire long-term debt, not including compensated absences payable are as follows:

Years	Governmental Activities				Total
	Bonded Debt *		G.O. Bonds Commission **		
	Principal	Interest	Principal	Interest	
2024	\$ 1,306,800	\$ 1,183,511	\$ 96,995	\$ 233,357	\$ 2,820,663
2025	1,723,587	1,158,334	209,495	211,783	3,303,199
2026	1,808,850	1,092,901	216,628	202,826	3,321,205
2027	1,869,096	1,027,462	223,761	193,919	3,314,238
2028	1,967,648	959,048	236,261	184,605	3,347,562
2029 - 2033	10,006,507	3,692,770	1,329,768	770,707	15,799,752
2034 - 2038	7,438,420	2,048,809	1,492,864	483,401	11,463,494
2039 - 2043	5,178,925	939,893	1,391,810	185,910	7,696,538
2044 - 2048	1,633,504	195,661	272,500	5,450	2,107,115
Thereafter	530,000	24,075	-	-	554,075
Totals	\$ 33,463,337	\$ 12,322,464	\$ 5,470,082	\$ 2,471,958	\$ 53,727,841

* These amounts are to be repaid with the City resources

** These amount are to be repaid with the receivable from the Commission

Years	Business-Type Activities					Totals
	Bonded Debt		Leases			
	Principal	Interest	Principal	Interest		
2024	\$ 381,205	\$ 295,360	\$ 97,747	\$ 61	\$ 774,373	
2025	511,917	259,301	24,894	-	796,112	
2026	254,522	235,875	-	-	490,397	
2027	267,143	223,871	-	-	491,014	
2028	281,091	211,288	-	-	(229)	
2029 - 2033	1,598,722	855,468	-	-	2,454,190	
2034 - 2038	1,843,713	536,153	-	-	2,379,866	
2039 - 2043	1,849,267	203,333	-	-	2,052,600	
Thereafter	269,001	5,380	-	-	274,381	
Totals	\$ 7,256,581	\$ 2,826,029	\$ 122,641	\$ 61	\$ 9,712,704	

Years	Discrete Component Unit				Totals
	Direct Borrowings		Loan Payable		
	Principal	Interest	Principal	Interest	
2024	\$ 565,000	\$ 51,157	\$ 96,995	\$ 233,357	\$ 946,509
2025	595,000	25,704	209,495	211,783	1,041,982
2026	-	-	216,628	202,826	419,454
2027	-	-	223,761	193,919	417,680
2028	-	-	236,261	184,605	420,866
2029 - 2033	-	-	1,329,768	770,707	2,100,475
2034 - 2038	-	-	1,492,864	483,401	1,976,265
2039 - 2043	-	-	1,391,810	185,910	1,577,720
Thereafter	-	-	272,500	5,450	277,950
Totals	\$ 1,160,000	\$ 76,861	\$ 5,470,082	\$ 2,471,958	\$ 9,178,901

**CITY OF DELANO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 4 CITY INDEBTEDNESS (CONTINUED)

Years	Discrete Component Unit Leases		Discrete Component Unit Service Territory Acquisition		Totals
	Principal	Interest	Principal	Interest	
2024	\$ 170,262	\$ 63,738	\$ 60,647	\$ -	\$ 234,000
2025	178,973	55,027	50,000	-	234,000
2026	188,129	45,871	-	-	234,000
2027	197,754	36,246	-	-	234,000
2028	207,872	26,128	-	-	234,000
2029 - 2033	429,284	19,889	-	-	449,173
Totals	<u>\$ 1,372,274</u>	<u>\$ 246,899</u>	<u>\$ 110,647</u>	<u>\$ -</u>	<u>\$ 1,619,173</u>

The annual requirements to amortize bonded debt outstanding as of December 31, 2023, including interest of \$6,093,283 are as follows:

Primary Government		Discrete Component Unit +	
Years	Amount	Years	Amount
2024	\$ 3,497,228	2024	\$ 946,509
2025	4,074,417	2025	1,041,982
2026	3,811,602	2026	419,454
2027	3,805,252	2027	417,680
2028	3,839,941	2028	420,866
2029 - 2033	18,253,942	2029 - 2033	2,100,475
2034 - 2038	13,843,360	2034 - 2038	1,976,265
2039 - 2043	9,749,138	2039 - 2043	1,577,720
2044 - 2048	2,381,496	2044 - 2048	277,950
Thereafter	554,075	Thereafter	-
Total	<u>\$ 63,810,451</u>	Total	<u>\$ 9,178,901</u>

+ This includes the principal and interest related to the due to primary government for the Commission's portion of the City's Series 2016A, 2018A, 2020A and 2023A bonds.

Leases

The City leases building space under long-term, a non-cancelable lease agreement. The building lease expires during fiscal year 2025, with an interest rate of 3.0%. Right-to-use assets acquired through outstanding leases are shown below, by underlying asset class:

	Business-Type Activities
Building	\$ 309,693
Less: Accumulated Amortization	(190,580)
Total	<u>\$ 119,113</u>

**CITY OF DELANO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 5 LEASE RECEIVABLES

The City, acting as lessor, leases certain building space under long-term, a noncancelable lease agreement. This lease expires in fiscal year 2025. During the year ended December 31, 2023, the City recognized \$4,293 and \$507 in lease revenue and interest revenue, respectively, pursuant to these contracts.

The City, acting as a lessor, leases certain real property under long-term, a noncancelable lease agreement. This lease expires in fiscal year 2024. During the year ended December 31, 2023, the City recognized \$11,708 and \$292 in lease revenue and interest revenue, respectively, pursuant to these contracts.

Total future minimum principal and interest payments to be received under lease agreements are as follows:

<u>Year Ending December 31,</u>	<u>Lease Receivable</u>	
	<u>Principal</u>	<u>Interest</u>
2024	\$ 4,507	\$ 293
2025	3,928	72
Total	<u>\$ 8,435</u>	<u>\$ 365</u>

NOTE 6 DEFINED BENEFIT PENSION PLANS – STATEWIDE

Plan Description

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

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

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.

**CITY OF DELANO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 6 DEFINED BENEFIT PENSION PLANS – STATEWIDE (CONTINUED)

Benefits Provided (Continued)

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% of average salary for each of the first 10 years of service and 1.7% of average salary for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7% of average salary for all years of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

Benefit increases are provided to benefit recipients each January. The postretirement increase is equal to 50 percent of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1 percent and a maximum of 1.5 percent. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase. Recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a reduced prorated increase. In 2023, legislation repealed the statute delaying increases for members retiring before full retirement age.

Contributions

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

Coordinated Plan members were required to contribute 6.50% of their annual covered salary in fiscal year 2023 and the City was required to contribute 7.50% for Coordinated Plan members. The City's contributions to the General Employees Fund for the year ended December 31, 2023, were \$166,406. The City's contributions were equal to the required contributions as set by state statute.

**CITY OF DELANO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 6 DEFINED BENEFIT PENSION PLANS – STATEWIDE (CONTINUED)

Pension Costs

At December 31, 2023, the City reported a liability of \$1,560,137 for its proportionate share of the General Employees Fund's net pension liability. The City's net pension liability reflected a reduction due to the state of Minnesota's contribution of \$16 million. The state of Minnesota is considered a nonemployer 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 \$43,054. The net pension liability was measured as of June 30, 2023, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2022, through June 30, 2023, relative to the total employer contributions received from all of PERA's participating employers. The City's proportion was .0279% at the end of the measurement period and .0266% for the beginning of the period.

City's Proportionate Share of the Net Pension Liability	\$ 1,560,137
State of Minnesota's Proportionate Share of the Net Pension Liability Associated With the City	43,054
Total	\$ 1,603,191

For the year ended December 31, 2023, the City recognized pension expense of \$334,669 for its proportionate share of the General Employees Plan's pension expense. In addition, the City recognized an additional \$169 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 the General Employee Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	\$ 51,235	\$ 10,748
Changes in Actuarial Assumptions	252,564	427,620
Net Difference Between Projected and Actual Earnings Pension Plan Investments	-	58,344
Changes in Proportion and Differences Between City Contributions and Proportionate Share of Contributions	144,436	-
City Contributions Subsequent to the Measurement Date	87,974	-
Total	\$ 536,209	\$ 496,712

**CITY OF DELANO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 6 DEFINED BENEFIT PENSION PLANS – STATEWIDE (CONTINUED)

Pension Costs (Continued)

The \$87,974 is 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 ending 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 Ending December 31,</u>	<u>Pension Expenses Amount</u>
2023	\$ 121,262
2024	(191,952)
2025	56,058
2026	(33,845)
Total	<u>\$ (48,477)</u>

Long-Term Expected Return on Investments

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	33.50%	5.10%
International Equity	16.50	5.30
Fixed Income	25.00	0.75
Private Markets	25.00	5.90

Actuarial Assumptions

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

**CITY OF DELANO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 6 DEFINED BENEFIT PENSION PLANS – STATEWIDE (CONTINUED)

Actuarial Assumptions (Continued)

Inflation is assumed to be 2.25 percent for the General Employees Plan, Police and Fire Plan, and the Correctional Plan. Benefit increases after retirement are assumed to be 1.25 percent for the General Employees Plan, 1% for the Police and Fire Plan, and 2 percent for the Correctional Plan.

Salary growth assumptions in the General Employees Plan range in annual increments from 10.25 percent after one year of service to 3.0 percent after 27 years of service. In the Police and Fire Plan, salary growth assumptions range from 11.75 percent after one year of service to 3.0 percent after 24 years of service. In the Correctional Plan, salary growth assumptions range from 11.0 percent at age 20 to 3.0 percent at age 60.

Mortality rates for the General Employees Plan are based on the Pub-2010 General Employee Mortality Table. Mortality rates for the Police and Fire Plan and the Correctional Plans are based on the Pub-2010 Public Safety Employee Mortality tables. The tables are adjusted slightly to fit PERA's experience.

Actuarial assumptions for the General Employees Plan are reviewed every four years. The most recent four-year experience study for the General Employees Plan was completed in 2022. The assumption changes were adopted by the Board and became effective with the July 1, 2023 actuarial valuation. The most recent four-year experience studies for the Police and Fire and the Correctional Plan were completed in 2020 were adopted by the Board and became effective with the July 1, 2021 actuarial valuation.

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

General Employees Fund

Changes in Actuarial Assumptions:

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

Changes in Plan Provisions:

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

**CITY OF DELANO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 6 DEFINED BENEFIT PENSION PLANS – STATEWIDE (CONTINUED)

Discount Rate

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

Pension Liability Sensitivity

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

	1% Decrease in Discount Rate (6.00%)	Current Discount Rate (7.00%)	1% Increase in Discount Rate (8.00%)
City's Proportionate Share of the GERF Net Pension Liability	\$ 2,760,007	\$ 1,560,137	\$ 573,198

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; by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088; or by calling (651) 296-7460 or 1-800-652-9026.

NOTE 7 DEFINED BENEFIT PENSION PLANS – DISCRETELY PRESENTED COMPONENT UNIT

Plan Description

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

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

**CITY OF DELANO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

**NOTE 7 DEFINED BENEFIT PENSION PLANS – DISCRETELY PRESENTED COMPONENT UNIT
(CONTINUED)**

Benefits Provided

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% of average salary for each of the first 10 years of service and 1.7% of average salary for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7% of average salary for all years of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

Benefit increases are provided to benefit recipients each January. The postretirement increase is equal to 50 percent of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1 percent and a maximum of 1.5 percent. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase. Recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a reduced prorated increase. In 2023, legislation repealed the statute delaying increases for members retiring before full retirement age.

Contributions

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

Coordinated Plan members were required to contribute 6.50% of their annual covered salary in fiscal year 2023 and the Commission was required to contribute 7.50% for Coordinated Plan members. The Commission's contributions to the General Employees Fund for the year ended December 31, 2023 were \$85,779. The Commission's contributions were equal to the required contributions as set by state statute.

**CITY OF DELANO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

**NOTE 7 DEFINED BENEFIT PENSION PLANS – DISCRETELY PRESENTED COMPONENT UNIT
(CONTINUED)**

Pension Costs

At December 31, 2023, the Commission reported a liability of \$743,721 for its proportionate share of the General Employees Fund's net pension liability. The Commission'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 nonemployer 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 Commission totaled \$20,552. 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 Commission's proportionate share of the net pension liability was based on the Commission'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 Commission's proportionate share was .0133% at the end of the measurement period and .0127% for the beginning of the period.

Commission's Proportionate Share of the Net Pension Liability	\$ 743,721
State of Minnesota's Proportionate Share of the Net Pension Liability Associated With the Commission	<u>20,552</u>
Total	<u><u>\$ 764,273</u></u>

For the year ended December 31, 2023, the Commission recognized pension expense of \$135,922 for its proportionate share of the General Employees Plan's pension expense.

At December 31, 2023, the Commission reported its proportionate share of the General Employees Plans' deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	\$ 24,424	\$ 5,124
Changes in Actuarial Assumptions	120,398	203,848
Net Difference Between Projected and Actual Earnings Pension Plan Investments	-	27,813
Changes in Proportion and Differences Between Contributions and Proportionate Share of Contributions	40,869	41,702
Commission Contributions Subsequent to the Measurement Date	<u>42,332</u>	<u>-</u>
Total	<u><u>\$ 228,023</u></u>	<u><u>\$ 278,487</u></u>

**CITY OF DELANO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

**NOTE 7 DEFINED BENEFIT PENSION PLANS – DISCRETELY PRESENTED COMPONENT UNIT
(CONTINUED)**

Pension Costs (Continued)

The \$42,332 reported as deferred outflows of resources related to pensions resulting from Commission 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 Ending December 31,</u>	Pension Expenses Amount
2024	\$ 20,168
2025	(123,255)
2026	26,425
2027	(16,134)
Total	<u>\$ (92,796)</u>

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 on a regular basis 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 below:

<u>Asset Class</u>	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	33.50 %	5.10 %
International Equity	16.50	5.30
Fixed Income	25.00	0.75
Private Markets	25.00	5.90
Cash	-	-

Actuarial Assumptions

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

**CITY OF DELANO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

**NOTE 7 DEFINED BENEFIT PENSION PLANS – DISCRETELY PRESENTED COMPONENT UNIT
(CONTINUED)**

Actuarial Assumptions (Continued)

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

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

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

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

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

General Employees Fund

Changes in Actuarial Assumptions:

- The investment return assumption and single discount rate were changed from 6.50 percent to 7.00 percent.

Changes in Plan Provisions:

- An additional one-time direct state aid contribution of \$170.1 million will be contributed to the Plan on October 1, 2023.
- The vesting period of those hired after June 30, 2010 was changed from five years of allowable service to three years of allowable service.
- The benefit increase delay for early retirements on or after January 1, 2024, was eliminated.
- A one-time, non-compounding benefit increase of 2.50 percent minus the actual 2024 adjustment will be payable in a lump sum for calendar year 2024 by March 31, 2024.

Discount Rate

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

**CITY OF DELANO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

**NOTE 7 DEFINED BENEFIT PENSION PLANS – DISCRETELY PRESENTED COMPONENT UNIT
(CONTINUED)**

Pension Liability Sensitivity

The following presents the Commission'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 Commission's proportionate share of the net pension liability would be if it were calculated using a discount rate one percentage point lower or one percentage point higher than the current discount rate:

	1% Decrease in Discount Rate (6.00%)	Current Discount Rate (7.00%)	1% Increase in Discount Rate (8.00%)
Discrete Component Unit's Proportionate Share of the GERP Net Pension Liability	\$ 1,315,702	\$ 743,721	\$ 273,245

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; by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088; or by calling (651) 296-7460 or 1-800-652-9026.

NOTE 8 DEFINED BENEFIT PENSION PLANS – FIRE RELIEF ASSOCIATION

Plan Description

Firefighters of the City of Delano are members of the Delano Fire Department Relief Association (the Association). The Association is the administrator of the single-employer defined benefit pension plan available to firefighters. The plan is administered by the Delano Fire Department Relief Association pursuant to Minnesota Statutes, Chapter 69, Chapter 424A, and the Association's by-laws. As of December 31, 2022, membership includes 24 active participants and five terminated members entitled to benefits but not yet receiving them. The plan issues a stand-alone financial statement. Financial statements can be obtained by contacting the City finance department.

Benefits Provided

Authority for payment of pension benefits is established in Minnesota Statutes §69.77 and may be amended only by the Minnesota State Legislature. Each member who is at least 50 years of age, has retired from the Fire Department, has served 10 years but less than 20 years of active service with such department before retirement shall be entitled to a lump-sum service pension in the amount of \$3,600 for each year of active times the vesting percentage. The vesting percentage is 60% for active duty of 10 years or more but less than 11 years. For active duty of more than 10 years, but less than 20 years, the vesting percentage increased by 4% for each additional year of service between 11 and 20.

**CITY OF DELANO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
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NOTE 8 DEFINED BENEFIT PENSION PLANS – FIRE RELIEF ASSOCIATION (CONTINUED)

Benefits Provided (Continued)

If a member of the Association shall become permanently or totally disabled, the Association shall pay the sum \$3,375 for each year the member was an active member of the Delano Fire Department. If a member who received a disability pension subsequently recovers and returns to active duty, the disability pension is deducted from the service pension. A death benefit is also available, which is payable to a survivor.

Minnesota Statutes Section 424A.10 provides for the payment of a supplemental benefit equal to 10% of a regular lump-sum distribution up to a maximum of \$1,000. The supplemental benefit is in lieu of state income tax exclusion for lump-sum distributions and will no longer be available if state tax law is modified to exclude lump-sum distributions from state income tax. The Association qualifies for these benefits.

Contributions

Minnesota Statutes Chapter 69.772 specifies minimum support rates required on an annual basis. The minimum support rates from the municipality are determined as the amount required to meet the normal cost plus amortizing any existing prior service costs over a 10-year period. The significant actuarial assumptions used to compute the municipal support are the same as those used to compute the accrued pension liability. The Association is comprised of volunteers; therefore, there are no payroll expenditures (i.e., there are no covered payroll percentage calculations). The minimum contribution from the City of Delano and state aid is determined as follows:

	Normal Cost
+	Amortization Payment of Unfunded Accrued Liability Prior to Any Change
+	Amortization Contribution on Unfunded Accrued Liability Attributable to Any Change
+	Administrative Expenses
-	Anticipated State Aid
-	Projected Investment Earnings
=	Total Contribution Required

The plan is funded in part by fire state aid and, if necessary, City contributions. The state of Minnesota distributed to the City \$70,484 in fire state aid paid by the City to the Relief Association for the year ended December 31, 2022. Required employer contributions are calculated annually based on statutory provisions. The City's statutorily-required contribution to the plan for the year ended December 31, 2022, was \$-0-.

Pension Costs

At December 31, 2023, the City reported an asset of \$332,494 for the Association's net pension asset. The net pension asset was measured as of December 31, 2022, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of that date.

As a result of its requirement to contribute to the Relief Association, the City recognized pension expense of (\$71,905) for the year ended December 31, 2023. At December 31, 2023, the City reported deferred outflows of resources and deferred inflows of resources from the following sources:

**CITY OF DELANO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 8 DEFINED BENEFIT PENSION PLANS – FIRE RELIEF ASSOCIATION (CONTINUED)

Pension Costs (Continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	\$ -	\$ 77,852
Changes in Actuarial Assumptions	1,865	15,781
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	154,218	-
Change in Total Pension Liability Due to Change in Census Data	-	8,407
City Contributions Subsequent to the Measurement Date	80,712	-
Total	<u>\$ 236,795</u>	<u>\$ 102,040</u>

The City contributions to the Association subsequent to the measurement date, \$80,712 reported as deferred outflows of resources 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 the Association's pension will be recognized in pension expense as follows:

<u>Year Ending December 31,</u>	Pension Expenses Amount
2024	\$ (23,366)
2025	17,537
2026	36,048
2027	48,330
2028	(9,630)
Thereafter	(14,876)
Total	<u>\$ 54,043</u>

Actuarial Assumptions

The actuarial total pension liability was determined as of December 31, 2022, using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date	January 1, 2023
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Dollar
	Closed
Actuarial Assumptions:	
Discount Rate	6.00%
Investment Rate of Return	6.00%
20-Year Municipal Bond Yield	N/A
Inflation Rate	2.5%
Age of Service Requirement	50

**CITY OF DELANO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 8 DEFINED BENEFIT PENSION PLANS – FIRE RELIEF ASSOCIATION (CONTINUED)

Actuarial Assumptions (Continued)

The best estimate of expected future real rates of return were developed by aggregating data from several published capital market assumption surveys and deriving a single best estimate based on the average survey values. These capital market assumptions reflect both historical market experience as well as diverse views regarding anticipated future returns. The expected inflation assumption was developed based on an analysis of historical experience blended with forward-looking expectations available in market data.

Best estimates of geometric real and nominal rates of return for each major asset class included in the pension plan's asset allocation as of December 31, 2022, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash and Cash Equivalents	15.00%	2.25%
Equities	34.00%	7.30
Fixed Income	50.00%	3.40
Other	1.00%	6.00

Discount Rates

The discount rate used to measure the total pension asset was 6.00%. Assets were projected using expected benefit payments and expected asset returns. Expected benefit payments were discounted by year using expected assets return assumption for years in which the assets were sufficient to pay all benefit payments. Any remaining benefit payments after the trust fund is exhausted are discounted at the municipal bond rate of return. The equivalent single rate is the discount rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members.

Pension Sensitivity

The following presents the City of Delano's proportionate share of the net pension asset of the Association, calculated using the discount rate of 6.00%, as well as what the Association's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.00%) or 1-percentage-point higher (7.00%) than the current rate:

Description	1% Decrease in Discount Rate (5.00%)	Current Discount Rate (6.00%)	1% Increase in Discount Rate (7.00%)
Net Pension Liability (Asset)	\$ (314,713)	\$ (332,494)	\$ (349,486)

**CITY OF DELANO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 8 DEFINED BENEFIT PENSION PLANS – FIRE RELIEF ASSOCIATION (CONTINUED)

Pension Plan Fiduciary Net Position

Information about the plan's net position is as follows:

	<u>2022</u>
Assets:	
Cash and Investments	\$ 1,486,548
Accounts Receivable	2,000
Total Assets	<u>1,488,548</u>
Net Position:	
Restricted for Pension Benefits	<u>\$ 1,488,548</u>

Information about changes in the plan's net pension liability (asset) is as follows:

	<u>2022</u>
Total Pension Liability:	
Service Cost	\$ 31,628
Interest	61,542
Differences Between Expected and Actual Experience	-
Plan Changes	10,354
Changes of Assumptions	(12,927)
Gain or Loss	(46,647)
Benefit Payments, Including Member Contribution	
Refunds	(57,002)
Other Changes	-
Net Change in Total Pension Liability	<u>(13,052)</u>
Total Pension Liability - Beginning	<u>1,169,109</u>
Total Pension Liability - Ending (a)	1,156,057
Plan Fiduciary Net Position:	
Municipal Contributions	-
State Contributions	70,484
Net Investment Income	88,554
Benefit Payments	(57,002)
Administrative Expenses	(7,394)
Other Changes	(289,799)
Net Change in Fiduciary Net Position	<u>(195,157)</u>
Fiduciary Net Position - Beginning	<u>1,683,708</u>
Fiduciary Net Position - Ending (b)	<u>1,488,551</u>
Association's Net Pension Liability/(Asset) -	
Ending (a) - (b)	<u>\$ (332,494)</u>

**CITY OF DELANO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 9 OTHER POSTEMPLOYMENT BENEFITS

Plan Description

The City adopted Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. As the City has fewer than 100 plan members, it has elected to calculate its total OPEB liability and related information using the alternative measurement permitted by GASB Statement No. 75.

The City provides health insurance benefits for certain retired employees under a single-employer defined benefit health care plan. The plan provides health care insurance for eligible retirees and their spouses through the City's group health insurance plan, which covers both active and retired members. Pursuant to the provisions of the plan, retirees are required to pay varying percentages of the total premium cost.

Postemployment Insurance Benefits

All retirees of the City have the option under state law to continue their medical insurance coverage through the City from the time of retirement until the employee reaches the age of eligibility for Medicare. For members of all employee groups, the retiree must pay the full premium to continue coverage for medical and dental insurance.

The City is legally required to include any retirees for whom it provides health insurance coverage in the same insurance pool as its active employees, whether the premiums are paid by the City or the retiree. Consequently, participating retirees are considered to receive a secondary benefit known as an "implicit rate subsidy." This benefit relates to the assumption that the retiree is receiving a more favorable premium rate than they would otherwise be able to obtain if purchasing insurance on their own, due to being included in the same pool with the City's younger and statistically healthier active employees.

Employees covered by benefit terms. At December 31, 2023, the following employees were covered by the benefit terms:

Inactive Plan Members or Beneficiaries Currently	
Receiving Benefit Payments	-
Inactive Plan Members Entitled to but not yet	
Receiving Benefit Payments	-
Active Plan Members	<u>22</u>
Total	<u><u>22</u></u>

Contributions and Funding Policy

The City funds its OPEB obligation on a pay as you go basis. The City contributes none of the cost of current year premiums for eligible retired plan members and their spouses except for the implicit rate subsidy described above. For fiscal year 2023, the City contributed \$-0- to the plan. Plan members receiving benefits contribute 100% of their premium costs. As of December 31, 2023, there were no retirees receiving health benefits from the City's health plans.

**CITY OF DELANO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 9 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Total OPEB Liability

The City's Total OPEB liability was measured as of December 31, 2023, and was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The total OPEB liability in the December 31, 2023 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Valuation Date	December 31, 2022
Measurement Date	December 31, 2023
Methods and Assumptions Used to Determine the Contribution Rates:	
Actuarial Cost Method	Entry Age
Amortization Method	Level percentage of payroll, closed
Amortization Period	Investment Gains/Losses are Amortized Over 5 Years and Liability Gains/Losses are Amortized Over Average Working Lifetime
Inflation	2.60%
Healthcare Cost Trend Rate	8.00% for 2023, decreasing .60% per year to an ultimate rate of 4.04%
Salary Increases	3.25%
Discount Rate	3.77% (Fidelity Municipal GO AA index as of December 31, 2023)
Retirement Age	Age 64
Mortality	Rates from the most recent July 1, 2014 through June 30, 2018 PERA and TRA Experience Studies

Discount Rate

The City's OPEB plan is not funded by a trust and, therefore, the City uses the Fidelity Municipal GO AA index rate to develop its long-term rate of return and discount rate. This rate was 3.77% in the current actuarial valuation, which was updated from the 4.05% used in the prior actuarial valuation.

**CITY OF DELANO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 9 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Changes in the Total OPEB Liability

The details of the changes in the City's total OPEB liability were as follows for 2023:

	Total OPEB Liability
Balance - December 31, 2022	\$ 38,847
Increase (Decrease) for the Year:	
Service Cost	2,123
Interest	1,659
Differences Between Expected and Actual Experience	(16,528)
Changes in Assumptions	(445)
Net Changes	<u>(13,191)</u>
Balance - December 31, 2023	<u>\$ 25,656</u>

The following changes in assumptions occurred between the current and prior actuarial valuations.

- Medical trend was updated based on recently published trend model and trend surveys to better reflect future anticipated experience.
- Medical per capita claims tables were updated based on recent experience and demographics.
- The discount rate was updated from 4.05% to 3.77% based on recent muni bond index rates.
- Membership participation was updated from 55% to 50% based on experience and demographics.

Sensitivity of Total OPEB Liability

Sensitivity of the total OPEB liability to changes in the discount rate and health care cost trend rates. The following presents the total OPEB liability of the City, as well as what the City's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.77%) or 1-percentage-point higher (4.77%) than the current discount rate:

	1% Decrease (2.77)%	Discount Rate (3.77)%	1% Increase (4.77)%
Net OPEB Liability (Asset)	\$ 27,161	\$ 25,656	\$ 24,208

Sensitivity of the net OPEB liability to changes in the health care cost trend rates. The following presents the net OPEB liability of the City, as well as what the City's net OPEB liability would be if it were calculated using health care cost trend rates that are 1-percentage-point lower (7.0% decreasing to 3.4%) or 1-percentage-point higher (9.0% decreasing to 5.04%) than the current health care cost trend rates:

**CITY OF DELANO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 9 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Sensitivity of Total OPEB Liability (Continued)

	1% Decrease (7.0% Decreasing to 3.04%)	Health Care Cost Trend Rates (8.0% Decreasing to 4.04%)	1% Increase (9.0% Decreasing to 5.04%)
Net OPEB Liability (Asset)	\$ 23,409	\$ 25,656	\$ 28,208

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended December 31, 2023 the City recognized OPEB expense of (\$13,191). At December 31, 2023, the City did not report any deferred outflows of resources and deferred inflows of resources related to OPEB.

NOTE 10 STEWARDSHIP COMPLIANCE AND ACCOUNTABILITY

Deficit Fund Balances/Net Position

The City has deficit fund balances at December 31, 2023, as follows:

Fund	Deficit
Nonmajor Funds:	
Special Revenue Funds:	
TIF #7 Delano Commons Project	\$ (8,014)
TIF #8 Downtown Redevelopment	(260,312)
TIF#9 Delano Legacy	(802,114)
TIF #12 Metro Business Park	(72,420)
TIF #14 Highway 12 / Tiger Drive	(196,094)
TIF#15 125 Woodland Rd	(1,318)
Riverside Commons	(45,146)
Economic Development	(431,725)
Total Nonmajor Funds	<u>\$ (1,817,143)</u>

The City intends to fund these deficits through future tax levies, special assessment levies, tax increments, transfers from other funds, and various other sources.

**CITY OF DELANO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
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NOTE 11 INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Individual fund receivable and payable balances at December 31, 2023, are as follows:

Fund	Interfund Receivables Due from Other Funds	Interfund Payables Due to Other Funds
Major Governmental Funds:		
Capital Project Fund	\$ 911,722	\$ 1,775,073
Nonmajor Governmental Funds:		
Special Revenue Fund:		
Economic Development	-	911,722
Fund 314	-	108,002
Fund 315	-	1,025
TIF #11 Industrial Louvers	73,445	-
TIF #12 West Metro Business Park	-	72,420
Riverside Commons	-	59,307
Enterprise Funds:		
Sewer	1,942,382	-
Due from Component Unit (to General Fund)	17,016	-
Due from Component Unit (to Storm Drainage Fund)	20,132	-
Due from Component Unit (to Sewer Fund)	188,921	-
Due to Primary Government from Component Unit	-	226,069
Total Due From/To	<u>\$ 3,153,618</u>	<u>\$ 3,153,618</u>

These interfund balances are for the reimbursement of services or utilities provided or temporary cash borrowings and are expected to be repaid in the following year.

**CITY OF DELANO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 11 INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS (CONTINUED)

Individual fund advances balances at December 31, 2023, are as follows:

Fund	Advances to Other Funds	Advances from Other Funds
Nonmajor Governmental Funds:		
Special Revenue Funds:		
TIF #7 Delano Commons Project	\$ -	\$ 8,014
TIF #8 Downtown Redevelopment	-	260,312
TIF #9 Delano Legacy	-	802,114
Enterprise Funds:		
Sewer	<u>1,070,440</u>	<u>-</u>
Total Advances	<u><u>\$ 1,070,440</u></u>	<u><u>\$ 1,070,440</u></u>

The advances from the Sewer Fund are for construction of infrastructure for various projects within the City. The advances from the Sewer Fund to TIF funds for infrastructure improvements are expected to be repaid with tax increments collected over the lives of the applicable districts. None of these advances are expected to be repaid within one year.

**CITY OF DELANO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 11 INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS (CONTINUED)

Transfers between funds during 2023 are as follows:

	Amount	Description
Major Funds:		
Transfers to General Fund from:		
Municipal Liquor Fund	\$ 125,000	Annual Contribution
Sanitary Sewer Fund	350,000	Annual Contribution
Total Transfers to General Fund	<u>475,000</u>	
Transfer to Capital Projects Fund from:		
General Fund	354,000	Annual Contribution
General Fund	309,609	Fund Balance Policy
Granite Works Project Fund	514,459	Transfer Project
TIF #12 - West Metro Business Park Fund	57,600	Debt Service
Sanitary Sewer Fund	1,681,184	Bond Proceeds
Sanitary Sewer Fund	2,134,000	Transfer Project
General Fund	344,348	ARPA Funding
Total Transfers to Capital Projects Fund	<u>5,395,200</u>	
Transfer to Debt Service Fund from:		
Storm Water Fund	150,375	Debt Service
Sanitary Sewer Fund	50,889	Debt Service
TIF #8 - Downtown Redevelopment	34,725	Debt Service
Abatement Fund	93,000	Debt Service
TIF #12 - West Metro Business Park Fund	400,706	Debt Service
2011A Refunding Bonds Fund	71,581	Close Out Fund
	<u>801,276</u>	
Total Transfer to Major Funds	6,671,476	
Nonmajor Funds:		
Transfer to Fire Department Special Revenue Fund from:		
General Fund	220,000	Annual Contribution
General Fund	264,055	Operating Costs
Total Transfers to Fire Department Special Revenue Fund	<u>484,055</u>	
Transfer to Senior Center Special Revenue Fund from:		
General Fund	13,000	Annual Contributions
General Fund	239,400	Sr. Center Operations Fund Funding
General Fund	14,100	Sr. Transportation Fund Funding
General Fund	20,400	Sr. Lunch Program
Total Transfers to Senior Center Special Revenue Fund	<u>286,900</u>	
Transfer to Economic Development Fund from:		
General Fund	21,000	Economic Development Projects
Total Transfer to Economic Development Fund	<u>21,000</u>	
Total Transfers to Nonmajor Governmental Funds	<u>791,955</u>	
Total Interfund Transfers	<u><u>\$ 7,463,431</u></u>	

**CITY OF DELANO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 12 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 obtains insurance through participation in the League of Minnesota Cities Insurance Trust (LMCIT) which is a risk sharing pool for its workers' compensation and property and casualty insurance. The LMCIT is self-sustaining through member premiums and will reinsure for claims above a prescribed dollar amount for each insurance event. Settled claims have not exceeded the City's coverage in any of the past three fiscal years.

Liabilities are reported when it is probable that a loss has occurred, and the amount of the loss can be reasonably estimated. Liabilities, if any, include an amount for claims that have been incurred but not reported (IBNRs). The City's management is not aware of any incurred but not reported claims.

The City continues to carry commercial insurance for all other risks of loss, including disability and employee health insurance. There were no significant reductions in insurance from the previous year or settlements in excess of insurance coverage for any of the past three fiscal years.

NOTE 13 COMMITMENTS AND CONTINGENCIES

Discretely Presented Component Unit – Electrical Power

Under authorization of state statutes, the Commission joined Central Minnesota Municipal Power Agency (CMMPA) with other municipal utilities to purchase electrical power through contracts for the mutual advantage of the governments. In 2015, CMMPA changed its name to Central Municipal Power Agency/Services (CMPAS). The governing body consists of members from each of the member utilities who are elected by the respective local utility commissions. Complete financial statements may be obtained by contacting CMPAS at 459 South Grove Street, Blue Earth, Minnesota, 56013.

The Commission signed a pre-execution subscription agreement with CMPAS (formerly CMMPA) to purchase 0.73MW of electrical power from the Wolf Wind project in Rushmore, MN. CMPAS has a 6.25MW subscription that is allocated among its members based on load share ratio. The contractual period for this contract is March 1, 2005 to April 3, 2021.

In September 2003, the Commission signed a pre-execution subscription agreement with CMPAS (formerly CMMPA) to purchase electrical power from a new power plant constructed by the Omaha Public Power District (OPPD) and to provide a share of the construction funding. This new plant was completed and operational in 2009. The life of the contract is 40 years after the date of completion. The Commission has committed to purchase 2 megawatts from this 600-megawatt plant. The Commission's share of construction costs approximate \$3,300,000. These construction costs are expected to be paid to CMMPA or OPPD via electricity purchase rates over the life of the 40-year contract.

If other participants in this project were to default, the Commission could be held responsible for up to 160% of its stated commitment.

**CITY OF DELANO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 13 COMMITMENTS AND CONTINGENCIES (CONTINUED)

Discretely Presented Component Unit – Electrical Power (Continued)

In 2010, the Commission signed a pre-execution subscription agreement with CMPAS (formerly CMMPA) to purchase 1.0MW of electrical power from the Iberdrola Wind Project in Rugby, SD. CMMPA has a 13.1MW subscription that is allocated among its members based on agreed upon levels of commitment. The contractual period for this contract is January 1, 2011 to December 31, 2025. In 2011, the Commission signed another agreement with CMPAS to purchase an additional 2.6MW of electrical power from the Iberdrola Wind Project for a total commitment of 3.6MW.

In 2012, the Commission signed an agreement to commit to purchasing power from the WPPI/Point Beach Nuclear Project. This agreement is for 1.20 MW of energy annually and extends through March 8, 2033.

In April 2007, the Commission and other municipal utilities signed an unsecured guaranty of a stand-by letter of credit between Utilities Plus (a component unit of CMMPA) and a bank. The letter of credit is to be used by Utilities Plus for payment of transmission or transmission service obligations to Midwest Independent Transmission System Operator, Inc. (MISO). The Commission's share of the guaranty is not to exceed \$434,734. Additionally, the Commission's guaranty only applies to transactions involving the Commission's purchase of electricity, transmission, and transmission services from Utilities Plus. No changes were made to this agreement during 2023 and there is no outstanding balance on the line of credit.

In December 2020, the Commission signed an agreement to commit to purchasing power from AEP Energy Partners, Inc. agreement runs from January 1, 2021 through May 31, 2030.

Federal and State Funds

The City receives financial assistance from federal and state governmental agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with the terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the applicable fund. Management is not aware of any disallowed claims at this time. The City administration believes such disallowances, if any, will be immaterial.

Law Enforcement Protection

The City contracts with the Wright County Sheriff for law enforcement protection. The current contract covers fiscal year 2024. The total remaining commitment for contracted services is approximately \$810,831 for 2024.

Wastewater

The City contracts with Veolia Water North America-Central, LLC for maintenance and operations services for the City's Wastewater Treatment Plant. The current contract extends through 2023.

**CITY OF DELANO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 13 COMMITMENTS AND CONTINGENCIES (CONTINUED)

Tax Increment Districts

The City's tax increment districts are subject to review by the State of Minnesota Office of the State Auditor (OSA). Any disallowed claims or misuse of tax increments could become a liability of the applicable fund. Management is not aware of any instances of noncompliance which would have a material effect on the financial statements.

Construction Commitments

At December 31, 2023, the City had construction projects in progress. The commitments related to the remaining contract balances are summarized as follows:

<u>Project</u>	<u>Certified Cost</u>	<u>Incurred to Date*</u>	<u>Remaining Committed</u>
Crow River Drive (Fund 314)	\$ 180,853	\$ 168,835	\$ 12,018
2023 Streets (Fund 438)	4,702,407	3,855,908	846,499
Total	<u>\$ 4,883,260</u>	<u>\$ 4,024,743</u>	<u>\$ 858,517</u>

*Includes Contracts Payable Amount

NOTE 14 RELATED PARTIES – DISCRETELY PRESENTED COMPONENT UNIT

An employee of the Commission is also a member of CMPAS Board of Directors.

NOTE 15 SUBSEQUENT EVENT

On April 2, 2024, the City approved the issuance of General Obligation Tax Abatement Bonds, Series 2024A in the amount of \$3,675,000. The proceeds from the bond issuance will be used to finance the Spirit Park project.

On June 3, 2024, the City approved the issuance of Electric Revenue Bonds, Series 2024B in the amount of approximately \$9,085,000. The proceeds from the bond issuance will be used to finance the Ice Park project.