



# Annual Financial Report

## City of Loretto

Loretto, Minnesota

For the year ended December 31, 2023



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City of Loretto, Minnesota  
Annual Financial Report  
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For the Year Ended December 31, 2023

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INTRODUCTORY SECTION

CITY OF LORETTO  
LORETTO, MINNESOTA

FOR THE YEAR ENDED  
DECEMBER 31, 2023

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City of Loretto, Minnesota  
Elected and Appointed Officials  
For the Year Ended December 31, 2023

**Elected Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Kent Koch	Mayor	12/31/2024
Ben Scanlon	Council Member	12/31/2026
Brenda Daniels	Council Member	12/31/2026
Greg Elsen	Council Member	12/31/2024
Melissa Markham	Council Member	12/31/2024

**Appointed Officials**

Mary Schneider	Clerk/Treasurer
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FINANCIAL SECTION  
CITY OF LORETTO  
LORETTO, MINNESOTA

FOR THE YEAR ENDED  
DECEMBER 31, 2023

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## INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council  
City of Loretto, Minnesota

### Opinions

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

### Unmodified Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements of the governmental funds referred to in the first paragraph present fairly, in all material respects, the cash and unencumbered cash balances of each fund of the City, as of December 31, 2023, and their respective cash receipts and disbursements, for the year then ended, on the basis of the financial reporting provisions the Minnesota Office of the State Auditor as described in Note 1B. Also, in our opinion, the financial statements of the proprietary funds referred to in the first paragraph present fairly, in all material respects, the respective financial position of each fund of the City as of December 31, 2023, and the respective changes in financial position and cash flows, for the year then ended, on the basis of the financial reporting provisions the Minnesota Office of the State Auditor as described in Note 1B.

### Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles" paragraph, the financial statements referred to in the first paragraph do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the City as of December 31, 2023, the changes in its financial position for the year then ended.

### Basis for Opinions

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

### Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1B, the financial statements are prepared by the City on the basis of the financial reporting provisions of the Minnesota Office of the State Auditor, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to meet the requirements of the Minnesota Office of the State Auditor. The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1B and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of the Minnesota Office of the State auditor, as described in Note 1B. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

## **Auditor's Responsibilities for the Audit of the Financial Statements**

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

In performing an audit in accordance with generally accepted auditing standards and Government Auditing Standards, we:

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

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

## ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Schedule of Employer's Shares of the Net Pension Liability and the Schedule of Employer's Contributions and the related note disclosures for defined benefit plans starting on page 40 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



## **Supplementary Information**

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

## **Other Information**

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 26, 2024, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



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Minneapolis, Minnesota  
March 26, 2024



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FINANCIAL STATEMENTS - REGULATORY BASIS

CITY OF LORETTO  
LORETTO, MINNESOTA

FOR THE YEAR ENDED  
DECEMBER 31, 2023

City of Loretto, Minnesota  
Statement of Balances Arising from Cash Transactions  
Governmental Funds  
December 31, 2023

	General	Capital Improvements	2021 Street Project Bond	Totals Governmental Funds
Assets				
Cash and temporary investments	\$ 549,833	\$ 205,435	\$ 108,382	\$ 863,650
Liabilities				
Due to other funds	\$ -	\$ 20,000	\$ -	\$ 20,000
Cash Fund Balances				
Restricted for				
Debt service	-	-	108,382	108,382
Assigned for capital purchases	-	185,435	-	185,435
Unassigned	549,833	-	-	549,833
Total Cash Fund Balances	549,833	185,435	108,382	843,650
Total Liabilities and Cash Fund Balances	\$ 549,833	\$ 205,435	\$ 108,382	\$ 863,650

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



City of Loretto, Minnesota  
Statement of Receipts, Disbursements and  
Changes in Cash Fund Balances  
Governmental Funds  
For the Year Ended December 31, 2023

	General	Capital Improvements	2021 Street Project Bond	Totals Governmental Funds
<b>Receipts</b>				
Taxes	\$ 540,630	\$ -	\$ 56,509	\$ 597,139
Licenses and permits	33,745	-	-	33,745
Intergovernmental	84,543	-	-	84,543
Charges for services	12,999	-	-	12,999
Fines and forfeitures	1,267	-	-	1,267
Special assessments	-	-	23,530	23,530
Interest on investments	20,597	11,052	2,888	34,537
Miscellaneous	59,642	-	-	59,642
Total Receipts	<u>753,423</u>	<u>11,052</u>	<u>82,927</u>	<u>847,402</u>
<b>Disbursements</b>				
<b>Current</b>				
General government	158,499	-	-	158,499
Public safety	175,436	-	-	175,436
Streets and highways	269,246	-	-	269,246
Culture and recreation	118,020	-	-	118,020
Miscellaneous	432	-	-	432
<b>Capital outlay</b>				
General government	1,000	-	-	1,000
Public safety	6,403	30,000	-	36,403
Streets and highways	3,500	87,000	-	90,500
Culture and recreation	52,608	6,509	-	59,117
<b>Debt service</b>				
Principal	-	-	50,000	50,000
Interest and other fiscal charges	-	-	14,487	14,487
Total Disbursements	<u>785,144</u>	<u>123,509</u>	<u>64,487</u>	<u>973,140</u>
Excess (Deficiency) of Receipts over (Under) Disbursements	<u>(31,721)</u>	<u>(112,457)</u>	<u>18,440</u>	<u>(125,738)</u>
<b>Other Financing Sources (Uses)</b>				
Transfers in	-	10,000	-	10,000
Transfers out	(10,000)	-	-	(10,000)
Total Other Financing Sources (Uses)	<u>(10,000)</u>	<u>10,000</u>	<u>-</u>	<u>-</u>
Net Change in Cash Fund Balances	(41,721)	(102,457)	18,440	(125,738)
Cash Fund Balances, January 1	<u>591,554</u>	<u>287,892</u>	<u>89,942</u>	<u>969,388</u>
Cash Fund Balances, December 31	<u>\$ 549,833</u>	<u>\$ 185,435</u>	<u>\$ 108,382</u>	<u>\$ 843,650</u>

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

City of Loretto, Minnesota  
Statement of Net Position  
Proprietary Funds  
December 31, 2023

	Business-type Activities - Enterprise Funds			Nonmajor Enterprise	Total
	Water	Wastewater	Storm Water	Garbage	
<b>Assets</b>					
<b>Current Assets</b>					
Cash and cash equivalents	\$ 172,352	\$ 223,056	\$ 179,461	\$ 2,706	\$ 577,575
Receivables					
Accounts	20,730	16,564	8,948	5,787	52,029
Special assessments	35,246	23,931	-	-	59,177
Due from other funds	20,000	-	-	-	20,000
<b>Total Current Assets</b>	<b>248,328</b>	<b>263,551</b>	<b>188,409</b>	<b>8,493</b>	<b>708,781</b>
<b>Noncurrent Assets</b>					
<b>Capital assets</b>					
Machinery and equipment	73,909	86,478	21,488	-	181,875
Infrastructure	1,279,872	1,317,589	21,710	-	2,619,171
Less accumulated depreciation	(417,734)	(177,470)	(33,227)	-	(628,431)
<b>Net Capital Assets</b>	<b>936,047</b>	<b>1,226,597</b>	<b>9,971</b>	<b>-</b>	<b>2,172,615</b>
<b>Total Assets</b>	<b>1,184,375</b>	<b>1,490,148</b>	<b>198,380</b>	<b>8,493</b>	<b>2,881,396</b>
<b>Deferred Outflows of Resources</b>					
Deferred pension resources	6,979	9,788	2,320	1,398	20,485
<b>Liabilities</b>					
<b>Current Liabilities</b>					
Accounts payable	64,437	1,414	1,500	4,577	71,928
Salaries and wages payable	694	967	262	209	2,132
Accrued interest payable	3,436	1,294	-	-	4,730
Compensated absences - current	2,081	2,935	749	503	6,268
Bonds payable - current	64,000	5,000	-	-	69,000
<b>Total Current Liabilities</b>	<b>134,648</b>	<b>11,610</b>	<b>2,511</b>	<b>5,289</b>	<b>154,058</b>
<b>Noncurrent Liabilities</b>					
Bonds payable	415,100	177,567	-	-	592,667
Net pension liability	28,955	40,612	9,623	5,804	84,994
<b>Total Noncurrent Liabilities</b>	<b>444,055</b>	<b>218,179</b>	<b>9,623</b>	<b>5,804</b>	<b>677,661</b>
<b>Total Liabilities</b>	<b>578,703</b>	<b>229,789</b>	<b>12,134</b>	<b>11,093</b>	<b>831,719</b>
<b>Deferred Inflows Of Resources</b>					
Deferred pension resources	8,972	12,584	2,982	1,798	26,336
<b>Net Position</b>					
Net investment in capital assets	456,947	1,044,030	9,971	-	1,510,948
Unrestricted	146,732	213,533	175,613	(3,000)	532,878
<b>Total Net Position</b>	<b>\$ 603,679</b>	<b>\$ 1,257,563</b>	<b>\$ 185,584</b>	<b>\$ (3,000)</b>	<b>\$ 2,043,826</b>

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

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

	Business-type Activities - Enterprise Funds			Nonmajor Enterprise	Total
	Water	Wastewater	Storm Water	Garbage	
Operating Revenues					
Charges for services	\$ 263,479	\$ 169,550	\$ 83,238	\$ 59,209	\$ 575,476
Operating Expenses					
Personal services	54,285	75,912	18,318	11,448	159,963
Supplies	12,372	8,584	2,443	651	24,050
Other charges	204,738	194,814	52,986	52,883	505,421
Depreciation	49,356	61,139	4,200	-	114,695
Total Operating Expenses	320,751	340,449	77,947	64,982	804,129
Operating Income (Loss)	(57,272)	(170,899)	5,291	(5,773)	(228,653)
Nonoperating Revenues (Expenses)					
Grants	-	-	-	2,938	2,938
Other revenue	-	7,756	-	-	7,756
Interest on investments	9,728	12,239	8,173	165	30,305
Interest and other fiscal charges	(9,280)	(2,972)	-	-	(12,252)
Total Nonoperating Revenues (Expenses)	448	17,023	8,173	3,103	28,747
Income Before Capital Contributions	(56,824)	(153,876)	13,464	(2,670)	(199,906)
Capital Contributions	593	402	-	-	995
Change in Net Position	(56,231)	(153,474)	13,464	(2,670)	(198,911)
Net Position, January 1	659,910	1,411,037	172,120	(330)	2,242,737
Net Position, December 31	\$ 603,679	\$ 1,257,563	\$ 185,584	\$ (3,000)	\$ 2,043,826

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

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

	Business-type Activities - Enterprise Funds			Nonmajor Enterprise	Total
	Water	Wastewater	Storm Water	Garbage	
<b>Cash Flows from Operating Activities</b>					
Receipts from customers	\$ 262,368	\$ 171,087	\$ 82,859	\$ 59,146	\$ 575,460
Other receipts	-	7,756	-	2,938	10,694
Payments to suppliers	(154,629)	(205,228)	(53,998)	(53,737)	(467,592)
Payments to employees	(53,103)	(74,214)	(17,217)	(9,833)	(154,367)
Net Cash Provided (Used) by Operating Activities	<u>54,636</u>	<u>(100,599)</u>	<u>11,644</u>	<u>(1,486)</u>	<u>(35,805)</u>
<b>Cash Flows from Noncapital Financing Activities</b>					
Cash received related to loans with other funds	10,000	-	-	-	10,000
<b>Cash Flows from Capital and Related Financing Activities</b>					
Acquisition of capital assets	(62,400)	-	-	-	(62,400)
Special assessments received	4,783	3,247	-	-	8,030
Principal paid on bonds	(63,000)	(5,000)	-	-	(68,000)
Interest paid on bonds	(10,058)	(3,155)	-	-	(13,213)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(130,675)</u>	<u>(4,908)</u>	<u>-</u>	<u>-</u>	<u>(135,583)</u>
<b>Cash Flows from Investing Activities</b>					
Interest on investments	9,728	12,239	8,173	165	30,305
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	(56,311)	(93,268)	19,817	(1,321)	(131,083)
Cash and Cash Equivalents, January 1	228,663	316,324	159,644	4,027	708,658
Cash and Cash Equivalents, December 31	<u>\$ 172,352</u>	<u>\$ 223,056</u>	<u>\$ 179,461</u>	<u>\$ 2,706</u>	<u>\$ 577,575</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities</b>					
Operating income (loss)	\$ (57,272)	\$ (170,899)	\$ 5,291	\$ (5,773)	\$ (228,653)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities					
Depreciation	49,356	61,139	4,200	-	114,695
Other receipts	-	7,756	-	2,938	10,694
(Increase) decrease in assets/deferred outflows					
Accounts receivable	(1,111)	1,537	(379)	(63)	(16)
Deferred pension resources	5,934	8,285	1,766	804	16,789
Increase (decrease) in liabilities/deferred inflows					
Accounts payable	62,481	(1,830)	1,431	(203)	61,879
Salaries and wages payable	39	42	58	112	251
Compensated absences payable	(193)	(304)	128	350	(19)
Net pension liability	(12,982)	(18,086)	(3,647)	(1,349)	(36,064)
Deferred pension resources	8,384	11,761	2,796	1,698	24,639
Net Cash Provided (Used) by Operating Activities	<u>\$ 54,636</u>	<u>\$ (100,599)</u>	<u>\$ 11,644</u>	<u>\$ (1,486)</u>	<u>\$ (35,805)</u>
<b>Noncash Capital and Related Financing Activities</b>					
Purchase of capital assets on account	\$ -	\$ -	\$ -	\$ -	\$ -
Amortization of bond premium	\$ 283	\$ 142	\$ -	\$ -	\$ 425

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

City of Loretto, Minnesota  
Notes to the Financial Statements  
December 31, 2023

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

**A. Reporting Entity**

The City of Loretto, Minnesota (the City), operates under “Optional Plan A” as defined in the Minnesota statutes. The City is governed by an elected Mayor and a four-member City Council. The City Council exercises legislative authority and determines all matters of policy. The City Council appoints personnel responsible for the proper administration of all affairs relating to the City. The City has considered all potential units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City’s financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization’s governing body, and (1) the ability of the primary government to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the primary government. The City has no component units that meet the GASB criteria.

**B. Measurement Focus, Basis of Accounting and Basis of Presentation**

The accompanying financial statements have been prepared using the regulatory basis of accounting as described in the Minnesota Office of the State Auditor’s Reporting and Publishing Requirements for Cities fewer than 2,500 in population published in February 2016. Under that basis, governmental receipts are recognized when received rather than when measurable and available, and disbursements are recognized when paid rather than when the obligation is incurred. That basis differs from generally accepted accounting principles in the United States of America (GAAP) primarily because the City has not included a management discussion and analysis letter, government-wide statement of net position and government-wide statement of activities and the City does not recognize governmental revenue and expenditures in accordance with the modified accrual basis of accounting.

The accounts of the City are organized and operated on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum numbers of funds are maintained consistent with legal and managerial requirements.

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

*Governmental funds* are used to account for the City’s general government activities and are accounted for using the regulatory basis of accounting. Their receipts are recognized when received in cash and disbursements are recognized when paid in cash. The regulatory basis of accounting is a special purpose framework other than GAAP. Under GAAP, governmental funds use the modified accrual method of accounting. The difference between the regulatory basis and modified accrual basis of accounting is that under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they are “measurable and available”). “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to pay liabilities of the current period.

*Proprietary funds* are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows.

City of Loretto, Minnesota  
Notes to the Financial Statements  
December 31, 2023

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

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, grants, entitlement and donations. On the regulatory basis, receipts from property taxes are recognized in the year the tax is collected. Receipts from grants, entitlements and donations are recognized in the year in which they are collected. For proprietary funds, revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis.

Preparation of the financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

The City has the following major governmental funds:

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

The *Capital Improvements fund* accounts for resources accumulated and payments made for improvements projects.

The *2021 Street Project Bond fund* accounts for resources accumulated and payments made for bond payments related to the 2021 bond issuance.

The City reports the following major proprietary funds:

The *Water fund* accounts for the activities of the water distribution system the City maintains.

The *Wastewater fund* accounts for the activities of the City's wastewater collection operations.

The *Stormwater fund* accounts for the activities of the City's wastewater collection operations.

*Enterprise funds* are used to account for those operations that are financed and operated in a manner similar to private business or where the City Council has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

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 enterprise funds are charges to customers for sales and services. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise 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.

**C. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position/Fund Balance**

***Deposits and Investments***

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. The proprietary funds' portion in the government-wide cash and temporary investments pool is considered to be cash and cash equivalents for purposes of the statement of cash flows.

City of Loretto, Minnesota  
Notes to the Financial Statements  
December 31, 2023

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

Cash balances from all funds are pooled and invested, to the extent available, in certificates of deposit and other authorized investments. Earnings from such investments are allocated on the basis of applicable participation by each of the funds.

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

1. Direct obligations or obligations guaranteed by the United States or its agencies.
2. Shares of investment companies registered under the Federal Investment Company Act of 1940 and received the highest credit rating, rated in one of the two highest rating categories by a statistical rating agency, and have a final maturity of thirteen months or less.
3. General obligations of a state or local government with taxing powers rated "A" or better; revenue obligations rated "AA" or better.
4. General obligations of the Minnesota Housing Finance Agency rated "A" or better.
5. Obligation of 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 pursuant to statute section 126C.55.
6. Bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System.
7. Commercial paper issued by United States banks corporations or their Canadian subsidiaries, of highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less.
8. Repurchase or reverse repurchase agreements and securities lending agreements with financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.
9. Guaranteed Investment Contracts (GIC's) issued or guaranteed by a United States commercial bank, a domestic branch of a foreign bank, a United States insurance company, or its Canadian subsidiary, whose similar debt obligations were rated in one of the top two rating categories by a nationally recognized rating agency.

The Minnesota Municipal Money Market Fund is regulated by Minnesota statutes and the Board of Directors of the League of Minnesota Cities and is an external investment pool not registered with the Securities Exchange Commission (SEC) that follows the regulatory rules of the SEC. In accordance with GASB Statement No. 79, the City's investment in this pool is valued at amortized cost, which approximates fair value. There are no restrictions or limitations on withdrawals from the 4M Liquid Asset Fund. Investments in the 4M Plus must be deposited for a minimum of 14 calendar days. Withdrawals prior to the 14-day restriction period will be subject to a penalty equal to seven days interest on the amount withdrawn. Seven days' notice of redemption is required for withdrawals of investments in the 4M Term Series withdrawn prior to the maturity date of that series. A penalty could be assessed as necessary to recoup the Series for any charges, losses, and other costs attributable to the early redemption. Financial statements of the 4M Fund can be obtained by contracting RBC Global Management at 100 South Fifth Street, Suite 2300, Minneapolis, MN 55402-1240.

**Property Taxes**

The City Council annually adopts a tax levy and certifies it to the County in December for collection in the following year. The County is responsible for collecting all property taxes for the City. These taxes attach an enforceable lien on taxable property within the City on January 1 and are payable by the property owners in two installments. The taxes are collected by the County Treasurer and tax settlements are made to the City during January, July and December of each year.

City of Loretto, Minnesota  
Notes to the Financial Statements  
December 31, 2023

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

***Accounts Receivable***

Accounts receivable in the enterprise funds include amounts billed for services provided before year end. The City can annually certify delinquent water and sewer accounts to the County for collection. As a result, there is no allowance for uncollectible accounts.

***Special Assessments***

Special assessments represent the financing for public improvements paid for by benefiting property owners. In the proprietary funds, these assessments are recorded as receivables upon certification to the County. Special assessments are recognized as revenue upon receipt in the governmental funds.

***Capital Assets***

Under the regulatory basis, the City does not account for capital assets used in the governmental funds.

Property, plant and equipment in the proprietary funds of the City are recorded at cost. Capital assets are defined by the City as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Property, plant and equipment donated to these proprietary fund type operations are recorded at estimated acquisition value at the date of donation.

Capital assets in the proprietary funds prior to 2005 are considered fully depreciated and not shown on the financial statements.

Major outlays for capital assets and improvements are capitalized in proprietary funds as projects are constructed.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized in the proprietary funds.

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

Assets	Useful Lives in Years
Land Improvements	10 - 20
Buildings and Improvements	10 - 50
Office Furniture and Fixtures	5 - 15
Machinery and Equipment	5 - 20
Automotive Equipment	5 - 10

***Deferred Outflows of Resources***

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has only one item that qualifies for reporting in this category. Accordingly, the item, deferred pension resources, is reported only in the statement of net position. This item results from actuarial calculations and current year pension contributions made subsequent to the measurement date.



City of Loretto, Minnesota  
Notes to the Financial Statements  
December 31, 2023

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

***Compensated Absences***

It is the City's policy to permit employees to accumulate a portion of earned but unused vacation and sick pay benefits. Accumulated vacation and sick pay are accrued when incurred in the proprietary fund financial statements. In governmental funds, in the case of an employee leaving, the General fund would be responsible for liquidation of the liability.

***Long-term Obligations***

In the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable proprietary fund type statement of net position. The recognition of bond premiums and discounts are amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as an expense in the period incurred.

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

***Pensions***

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

***Deferred Inflows of Resources***

In addition to liabilities, the statement of net position and fund financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has only one item which qualifies for reporting in this category on the statement of net position. The item, deferred pension resources, is reported only in the statement of net position and results from actuarial calculations involving net differences between projected and actual earnings on plan investments and changes in proportions.

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

### **Fund Balance**

In the fund financial statements, fund balance is divided into five classifications based primarily on the extent to which the City is bound to observe constraints imposed upon the use of resources reported in the governmental funds. These classifications are defined as follows:

*Nonspendable* - Amounts that cannot be spent because they are not in spendable form, such as prepaid items.

*Restricted* - Amounts related to externally imposed constraints established by creditors, grantors or contributors; or constraints imposed by state statutory provisions.

*Committed* - Amounts constrained for specific purposes that are internally imposed by formal action (resolution) of the City Council, which is the City's highest level of decision-making authority. Committed amounts cannot be used for any other purpose unless the City Council modifies or rescinds the commitment by resolution.

*Assigned* - Amounts constrained for specific purposes that are internally imposed. In governmental funds other than the General fund, assigned fund balance represents all remaining amounts that are not classified as nonspendable and are neither restricted nor committed. In the General fund, assigned amounts represent intended uses established by the City Council itself or by an official to which the governing body delegates the authority. The City Council has adopted a fund balance policy which delegates the authority to assign amounts for specific purposes to the City Clerk.

*Unassigned* - The residual classification for the General fund and also negative residual amounts in other funds.

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

The City has formally adopted a fund balance policy for the General fund. The City's policy is to maintain a minimum unassigned fund balance of 50 percent of budgeted operating disbursements for cash-flow timing needs.

### **Net Position**

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net position is displayed in three components:

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

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

City of Loretto, Minnesota  
Notes to the Financial Statements  
December 31, 2023

**Note 2: Stewardship, Compliance and Accountability**

**A. Budgetary Information**

Annual budgets are adopted on the regulatory basis, which is a comprehensive basis other than GAAP for the General fund. All annual appropriations lapse at fiscal year-end. The City does not use encumbrance accounting.

In August of each year, all departments of the City submit requests for appropriations to the City Clerk so that a budget may be prepared. Before September 30, the proposed budget is presented to the City Council for review. The City Council holds public hearings and a final budget is prepared and adopted in early December.

The appropriated budget is prepared by fund, function and department. The City's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the City Council. The legal level of budgetary control is the department level. There were no budget amendments in 2023.

**B. Excess of Disbursements over Appropriations**

For the year ended December 31, 2023 expenditures exceeded appropriations in the following fund:

Fund	Budget	Actual	Excess of Disbursements Over Appropriations
General	\$ 699,815	\$ 785,144	\$ 85,329

The excess disbursements were funded by receipts in excess of expectations and available fund balance.

**Note 3: Detailed Notes on Accounts**

**A. Deposits and Investments**

**Deposits**

Custodial credit risk for deposits and investments is the risk that in the event of a bank failure, the City's deposits and investments may not be returned or the City will not be able to recover collateral securities in the possession of an outside party. In accordance with Minnesota statutes and as authorized by the City Council, the City maintains deposits at those depository banks, all of which are members of the Federal Reserve System.

Minnesota statutes require that all City deposits be protected by insurance, surety bond or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance, bonds, with the exception irrevocable standby letters of credit from Federal Home Loan Banks as this type of collateral only requires collateral pledged equal to 100 percent of the deposits not covered by insurance or bonds.

Authorized collateral in lieu of a corporate surety bond includes:

- United States government Treasury bills, Treasury notes, Treasury bonds;
- Issues of United States government agencies and instrumentalities as quoted by a recognized industry quotation service available to the government entity;
- General obligation securities of any state or local government with taxing powers which is rated "A" or better by a national bond rating service, or revenue obligation securities of any state or local government with taxing powers which is rated "AA" or better by a national bond rating service;

City of Loretto, Minnesota  
Notes to the Financial Statements  
December 31, 2023

**Note 3: Detailed Notes on Accounts (Continued)**

- General obligation securities of a local government with taxing powers may be pledged as collateral against funds deposited by that same local government entity;
- Irrevocable standby letters of credit issued by Federal Home Loan Banks to a municipality accompanied by written evidence that the bank’s public debt is rated “AA” or better by Moody’s Investors Service, Inc., or Standard & Poor’s Corporation; and
- Time deposits that are fully insured by any federal agency.

Minnesota statutes require that all collateral shall be placed in safekeeping in a restricted account at a Federal Reserve Bank, or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral. The selection should be approved by the City.

At year end, the City’s carrying amount of deposits was \$1,384,986 and the bank balance was \$1,453,533. Of the bank balance \$1,453,533 was covered by Federal depository insurance.

**Investments**

At year end, the City’s investments balances were as follows:

Investment Type	Credit Quality/ Ratings (1)	Segmented Time Distribution (2)	Amount
Pooled Investments at Amortized Costs			
Minnesota Municipal Money Market fund	N/A	less than 6 months	<u>\$ 56,189</u>

(1) Ratings are provided by various credit rating agencies where applicable to indicate associated credit risk.

(2) Interest rate risk is disclosed using the segmented time distribution method.

N/A Indicates not applicable or available.

The investments of the City are subject to the following risks:

- *Credit Risk.* Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Ratings are provided by various credit rating agencies and where applicable, indicate associated credit risk. Minnesota statutes limit the City’s investments to the list on page 23 of the notes.
- *Custodial Credit Risk.* The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.
- *Concentration of Credit Risk.* Concentration of credit risk is the risk of loss attributed to the magnitude of a government’s investment in a single issuer.
- *Interest Rate Risk.* Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

The investment in the Minnesota Municipal Money Market Mutual Fund is not subject to the custodial credit risk classifications as noted in paragraph 9 of GASB Statement No. 40. The City does not have an investment policy that addresses the risks described above.

City of Loretto, Minnesota  
Notes to the Financial Statements  
December 31, 2023

**Note 3: Detailed Notes on Accounts (Continued)**

A reconciliation of cash and temporary investments as shown on the financial statements for the City follows:

Carrying Amount of Deposits	\$ 1,384,986
Investments	56,189
Cash on Hand	<u>50</u>
Total	<u><u>\$ 1,441,225</u></u>
Governmental Funds	\$ 863,650
Business-type Funds	<u>577,575</u>
Total	<u><u>\$ 1,441,225</u></u>

**B. Capital Assets**

A summary of changes in business-type capital assets follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Business-type Activities</b>				
Capital Assets being Depreciated				
Infrastructure	2,619,171	-	-	2,619,171
Machinery and Equipment	<u>181,875</u>	<u>-</u>	<u>-</u>	<u>181,875</u>
Total Capital Assets being Depreciated	<u>2,801,046</u>	<u>-</u>	<u>-</u>	<u>2,801,046</u>
Less Accumulated Depreciation for				
Infrastructure	(349,503)	(99,664)	-	(449,167)
Machinery and Equipment	<u>(164,233)</u>	<u>(15,031)</u>	<u>-</u>	<u>(179,264)</u>
Total Accumulated Depreciation	<u>(513,736)</u>	<u>(114,695)</u>	<u>-</u>	<u>(628,431)</u>
Total Capital Assets being Depreciated, Net	<u>2,287,310</u>	<u>(114,695)</u>	<u>-</u>	<u>2,172,615</u>
Business-type Activities Capital Assets, Net	<u><u>\$ 2,287,310</u></u>	<u><u>\$ (114,695)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 2,172,615</u></u>

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

<b>Business-type Activities</b>	
Water	\$ 49,356
Wastewater	61,139
Storm Water	<u>4,200</u>
Total Depreciation Expense - Business-type Activities	<u><u>\$ 114,695</u></u>

City of Loretto, Minnesota  
Notes to the Financial Statements  
December 31, 2023

**Note 3: Detailed Notes on Accounts (Continued)**

**C. Interfund Receivables, Payables and Transfers**

***Interfund Receivable/Payable***

The composition of interfund balances at December 31, 2023 is as follows:

Receivable Fund	Payable Fund	Purpose	Amount
Water	Street Improvement	To finance the Lions Park Improvement Project	<u>\$ 20,000</u>

***Interfund Transfers***

The composition of interfund transfers for the year ended December 31, 2023 is as follows:

Fund	Transfers in Capital Improvement
Transfer out General	<u>\$ 10,000</u>

The Capital Improvements Fund transferred \$10,000 to the General Fund for payment to Water Capital for Lions Park Shelter Improvement Project.

**D. Long-term Debt**

**General Obligation Bonds**

A general obligation bond has been issued for both general government and proprietary activities. The following bond was issued to finance the 2021 Street Improvement Project. It will be repaid from future tax levies and special assessment revenue and is backed by the taxing power of the City.

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
G.O. Bond, Series 2021A	\$ 1,495,000	0.5 - 2.0 %	08/05/21	02/01/42	<u>\$ 1,425,000</u>

City of Loretto, Minnesota  
Notes to the Financial Statements  
December 31, 2023

**Note 3: Detailed Notes on Accounts (Continued)**

General obligation bonds are direct obligations and pledge the full faith and credit of the government. General obligation bonds currently outstanding are as follows:

Year Ending December 31,	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2024	\$ 55,000	\$ 13,543	\$ 68,543	\$ 20,000	\$ 9,473	\$ 29,473
2025	55,000	13,268	68,268	20,000	9,373	29,373
2026	60,000	12,875	72,875	25,000	9,216	34,216
2027	60,000	12,365	72,365	30,000	8,983	38,983
2028	60,000	11,855	71,855	30,000	8,728	38,728
2029-2033	310,000	42,800	352,800	150,000	35,500	185,500
2034-2038	270,000	11,000	281,000	150,000	20,500	170,500
2039-2042	-	-	-	130,000	5,400	135,400
<b>Total</b>	<b>\$ 870,000</b>	<b>\$ 117,706</b>	<b>\$ 987,706</b>	<b>\$ 555,000</b>	<b>\$ 107,173</b>	<b>\$ 662,173</b>

General Obligation Revenue Bonds

The following bond was issued to finance capital improvements in the Water fund. It will be repaid from future revenues pledged from the Water fund and is backed by the taxing power of the City. Annual principal and interest payments on the bond are expected to require approximately 20% of revenues from the Water fund. For 2023, principal and interest paid and total customer revenues for the Water fund were \$51,396 and \$228,244, respectively.

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
G.O. Water Revenue Note of 2006	\$ 775,000	2.31 %	05/09/06	08/20/25	<u>\$ 99,000</u>

The annual requirements to amortize general obligation revenue bonds as of December 31, 2023 are as follows:

Year Ending December 31,	Business-type Activities		
	Principal	Interest	Total
2024	49,000	2,287	51,287
2025	50,000	1,115	51,115
<b>Total</b>	<b>\$ 99,000</b>	<b>\$ 3,402</b>	<b>\$ 102,402</b>

City of Loretto, Minnesota  
Notes to the Financial Statements  
December 31, 2023

**Note 3: Detailed Notes on Accounts (Continued)**

Changes in Long-term Liabilities

During the year ended December 31, 2023, the following changes occurred in long-term liabilities.

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Governmental activities</b>					
Bonds payable					
General obligation bonds	<u>\$ 920,000</u>	<u>\$ -</u>	<u>\$ 50,000</u>	<u>\$ 870,000</u>	<u>\$ 55,000</u>
<b>Business-type Activities</b>					
Bonds Payable					
General obligation					
revenue bonds	\$ 147,000	\$ -	\$ (48,000)	\$ 99,000	\$ 49,000
General obligation bonds	575,000	-	(20,000)	555,000	20,000
Unamortized premium on bonds	8,092	-	(425)	7,667	-
Compensated Absences Payable	<u>6,287</u>	<u>16,568</u>	<u>(16,587)</u>	<u>6,268</u>	<u>6,268</u>
Total	<u>\$ 736,379</u>	<u>\$ 16,568</u>	<u>\$ (85,012)</u>	<u>\$ 667,935</u>	<u>\$ 75,268</u>



**Note 4: Defined Benefit Pension Plans - Statewide**

**A. Plan Description**

The City 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.

General Employees Retirement Plan

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

**B. Benefits Provided**

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

General Employee Plan Benefits

General Employees Plan benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for Coordinated members is 1.2 percent of average salary for each of the first 10 years of service and 1.7 percent of average salary for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7 percent for 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.

**C. Contributions**

Minnesota statutes, chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state Legislature.

General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in fiscal year 2023 and the City was required to contribute 7.50 percent for Coordinated Plan members. The City's contributions to the General Employees Fund for the years ending December 31, 2023, 2022 and 2021 were \$19,139, \$18,665 and \$17,991, respectively. The City's contributions were equal to the required contributions for each year as set by state statute.

City of Loretto, Minnesota  
Notes to the Financial Statements  
December 31, 2023

**Note 4: Defined Benefit Pension Plans - Statewide (Continued)**

**D. Pension Costs**

General Employees Fund Pension Costs

At December 31, 2023, the City reported a liability of \$190,124 for its proportionate share of the General Employees Fund's net pension liability. The City's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the City totaled \$5,250. The net pension liability was measured as of June 30, 2023, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportionate share of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2022 through June 30, 2023 relative to the total employer contributions received from all of PERA's participating employers. The City's proportionate share was 0.0034 percent at the end of the measurement period and 0.0034 percent for the beginning of the period.

City Proportionate Share of the Net Pension Liability	\$ 190,124
State of Minnesota's Proportionate Share of the Net Pension Liability Associated with the City	<u>5,250</u>
Total	<u><u>\$ 195,374</u></u>

For the year ended December 31, 2023, the City recognized pension expense of \$32,206 for its proportionate share of the General Employees Plan's pension expense. In addition, the City recognized \$24 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 Employees Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	\$ 6,243	\$ 1,271
Changes in Actuarial Assumptions	29,909	52,111
Net Difference Between Projected and Actual Investment Earnings	-	5,527
Changes in Proportion	1,068	-
Contributions Paid to PERA Subsequent to the Measurement Date	<u>8,608</u>	<u>-</u>
Total	<u><u>\$ 45,828</u></u>	<u><u>\$ 58,909</u></u>

The \$8,608 reported as deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2024. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

2024	\$ 5,483
2025	(27,486)
2026	4,439
2027	(4,125)

**Note 4: Defined Benefit Pension Plans - Statewide (Continued)**

**E. Long-term Expected Return on Investment**

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

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Domestic Equity	33.5 %	5.10 %
International Equity	16.5	5.30
Fixed Income	25.0	0.75
Private Markets	25.0	5.90
	<u>100.0</u> %	

**F. 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.

Inflation is assumed to be 2.25 percent for the General Employees Plan and 2.25 percent for the Police and Fire Plan. Benefit increases after retirement are assumed to be 1.25 percent for the General Employees Plan and 1.00 percent for the the Police and Fire 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.

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 most recent four-year experience study for the Police and Fire Plan was 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 7.0 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 Loretto, Minnesota  
Notes to the Financial Statements  
December 31, 2023

**Note 4: Defined Benefit Pension Plans - Statewide (Continued)**

**G. Discount Rate**

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

**H. Pension Liability Sensitivity**

The following presents the City'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 Percent Decrease (6.0%)	Current (7.0%)	1 Percent Increase (8.0%)
General Employees Fund	\$ 336,345	\$ 190,124	\$ 69,852

**I. Pension Plan Fiduciary Net Position**

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

City of Loretto, Minnesota  
Notes to the Financial Statements  
December 31, 2023

**Note 5: Other Information**

**A. Risk Management**

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which the City carries insurance. The City obtains insurance through participation in the League of Minnesota Cities Insurance Trust (LMCIT), which is a risk sharing pool with approximately 800 other governmental units. The City pays an annual premium to LMCIT 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 this 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 (IBNR's). The City's management is not aware of any incurred but not reported claims.

**B. Legal Debt Margin**

In accordance with Minnesota statutes, the City may not incur or be subject to net debt in excess of 3 percent of the market value of taxable property within the City. Net debt is payable solely from ad valorem taxes and therefore, excludes debt financed partially or entirely by special assessments, enterprise fund revenues or tax increments. The City has no debt subject to this limit.

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REQUIRED SUPPLEMENTARY INFORMATION

CITY OF LORETTO  
LORETTO, MINNESOTA

FOR THE YEAR ENDED  
DECEMBER 31, 2023

City of Loretto, Minnesota  
Required Supplementary Information  
December 31, 2023

**Schedule of Employer's Share of PERA Net Pension Liability - General Employees Plan**

Fiscal Year Ending	City's Proportion of the Net Pension Liability	City's Proportionate Share of the Net Pension Liability (a)	State's Proportionate Share of the Net Pension Liability Associated with the City (b)	Total (a+b)	City's Covered Payroll (c)	City's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll ((a+b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
06/30/23	0.0034 %	\$ 190,124	\$ 5,250	195,374	\$ 267,459	71.1 %	83.1 %
06/30/22	0.0034	269,281	7,895	277,176	244,097	110.3	76.7
06/30/21	0.0033	140,925	4,303	145,228	237,774	59.3	87.0
06/30/20	0.0031	185,859	5,739	191,598	231,647	80.2	79.0
06/30/19	0.0031	171,392	5,333	176,725	221,977	79.6	80.2
06/30/18	0.0029	160,880	5,067	165,947	193,287	85.9	79.5
06/30/17	0.0024	153,214	1,929	155,143	154,839	99.0	75.9
06/30/16	0.0020	162,390	-	162,390	119,088	136.4	68.9
06/30/15	0.0022	114,015	-	114,015	119,660	95.3	78.2

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

**Schedule of Employer's PERA Contributions - General Employees Plan**

Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	City's Covered Payroll (c)	Contributions as a Percentage of Covered Payroll (b/c)
12/31/23	\$ 19,139	\$ 19,139	\$ -	\$ 255,187	7.5 %
12/31/22	18,665	18,665	-	248,869	7.5
12/31/21	17,991	17,991	-	239,885	7.5
12/31/20	17,369	17,369	-	231,593	7.5
12/31/19	17,082	17,082	-	227,765	7.5
12/31/18	16,513	16,513	-	220,173	7.5
12/31/17	12,202	12,202	-	162,693	7.5
12/31/16	10,689	10,689	-	142,520	7.5
12/31/15	8,438	8,438	-	112,507	7.5

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



City of Loretto, Minnesota  
Required Supplementary Information (Continued)  
December 31, 2023

**Notes to the Required Supplementary Information - General Employees Plan Fund**

Changes in Actuarial Assumptions

2023 - The investment return assumption and single discount rate were changed from 6.5 percent to 7.00 percent.

2022 - The mortality improvement scale was changed from Scale MP-2020 to Scale MP-2021.

2021 - The investment return and single discount rates were changed from 7.50 percent to 6.50 percent, for financial reporting purposes. The mortality improvement scale was changed from Scale MP-2019 to Scale MP-2020.

2020 - The price inflation assumption was decreased from 2.50% to 2.25%. The payroll growth assumption was decreased from 3.25% to 3.00%. Assumed salary increase rates were changed as recommended in the June 30, 2019 experience study. The net effect is assumed rates that average 0.25% less than previous rates. Assumed rates of retirement were changed as recommended in the June 30, 2019 experience study. The changes result in more unreduced (normal) retirements and slightly fewer Rule of 90 and early retirements. Assumed rates of termination were changed as recommended in the June 30, 2019 experience study. The new rates are based on service and are generally lower than the previous rates for years 2-5 and slightly higher thereafter. Assumed rates of disability were changed as recommended in the June 30, 2019 experience study. The change results in fewer predicted disability retirements for males and females. The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 General Mortality table, with adjustments. The base mortality table for disabled annuitants was changed from the RP-2014 disabled annuitant mortality table to the PUB-2010 General/Teacher disabled annuitant mortality table, with adjustments. The mortality improvement scale was changed from Scale MP-2018 to Scale MP-2019. The assumed spouse age difference was changed from two years older for females to one year older. The assumed number of married male new retirees electing the 100% Joint & Survivor option changed from 35% to 45%. The assumed number of married female new retirees electing the 100% Joint & Survivor option changed from 15% to 30%. The corresponding number of married new retirees electing the Life annuity option was adjusted accordingly.

2019 - The mortality projection scale was changed from MP-2017 to MP-2018.

2018 - The mortality projection scale was changed from MP-2015 to MP-2017. The assumed benefit increase was changed from 1.00 percent per year through 2044 and 2.50 percent per year thereafter to 1.25 percent per year.

2017 - The Combined Service Annuity (CSA) loads were changed from 0.8 percent for active members and 60 percent for vested and non-vested deferred members. The revised CSA loads are now 0.0 percent for active member liability, 15.0 percent for vested deferred member liability and 3.0 percent for non-vested deferred member liability. The assumed post-retirement benefit increase rate was changed from 1.0 percent per year for all years to 1.0 percent per year through 2044 and 2.5 percent per year thereafter.

2016 - The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2035 and 2.5 percent per year thereafter to 1.0 percent per year for all future years. The assumed investment return was changed from 7.9 percent to 7.5 percent. The single discount rate was changed from 7.9 percent to 7.5 percent. Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth and inflation were decreased by 0.25 percent to 3.25 percent for payroll growth and 2.50 percent for inflation.

2015 - The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2030 and 2.5 percent per year thereafter to 1.0 percent per year through 2035 and 2.5 percent per year thereafter.

City of Loretto, Minnesota  
Required Supplementary Information (Continued)  
December 31, 2023

**Notes to the Required Supplementary Information - General Employees Plan Fund (Continued)**

Changes in Plan Provisions

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

2022 - There were no changes in plan provisions since the previous valuation.

2021 - There were no changes in plan provisions since the previous valuation.

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

2019 - The employer supplemental contribution was changed prospectively, decreasing from \$31.0 million to \$21.0 million per year. The state's special funding contribution was changed prospectively, requiring \$16.0 million due per year through 2031.

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

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

2016 - There were no changes in plan provisions since the previous valuation.

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

INDIVIDUAL FUND FINANCIAL SCHEDULES

CITY OF LORETTO  
LORETTO, MINNESOTA

FOR THE YEAR ENDED  
DECEMBER 31, 2023

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City of Loretto, Minnesota

General Fund

Budgetary Comparison Schedule - Regulatory Basis (Continued on the Following Pages)

For the Year Ended December 31, 2023

(With Comparative Actual Amounts for the Year Ended December 31, 2022)

	2023			Variance with Final Budget	2022
	Budgeted Amounts		Actual Amounts		Actual Amounts
	Original	Final			
Budgetary Cash Fund Balances, January 1	\$ 591,554	\$ 591,554	\$ 591,554	\$ -	\$ 612,017
Receipts					
Property taxes	533,400	533,400	540,630	7,230	514,675
Licenses and permits	24,000	24,000	33,745	9,745	24,991
Intergovernmental					
Federal					
Federal grants	-	-	-	-	36,282
State					
Local government aid	45,215	45,215	45,215	-	43,661
Fire aid	45,000	45,000	-	(45,000)	51,144
Other State aids	-	-	28,313	28,313	-
Other State aids	-	-	9,450	9,450	34,883
County					
County grants	1,200	1,200	1,565	365	1,576
Total intergovernmental	91,415	91,415	84,543	(6,872)	167,546
Charges for services					
General government	1,000	1,000	300	(700)	750
Culture and recreation	10,000	10,000	12,699	2,699	11,614
Total charges for services	11,000	11,000	12,999	1,999	12,364
Fines and forfeitures	3,000	3,000	1,267	(1,733)	2,762
Interest on investments	5,000	5,000	20,597	15,597	7,851
Miscellaneous					
Refunds and reimbursements	13,000	13,000	14,021	1,021	29,110
Contributions and donations	10,000	10,000	8,907	(1,093)	10,555
Other	9,000	9,000	36,714	27,714	15,930
Total miscellaneous	32,000	32,000	59,642	27,642	55,595
Total Receipts	699,815	699,815	753,423	53,608	785,784
Amounts Available for Appropriation	1,291,369	1,291,369	1,344,977	53,608	1,397,801

City of Loretto, Minnesota  
General Fund  
Budgetary Comparison Schedule - Regulatory Basis (Continued)  
For the Year Ended December 31, 2023  
(With Comparative Actual Amounts for the Year Ended December 31, 2022)

	2023			Variance with Final Budget	2022
	Budgeted Amounts		Actual Amounts		Actual Amounts
	Original	Final			
Disbursements					
Current					
General government					
Mayor and Council					
Personal services	\$ 19,290	\$ 19,290	\$ 17,824	\$ 1,466	\$ 14,009
Other services and charges	500	500	350	150	-
Total Mayor and Council	<u>19,790</u>	<u>19,790</u>	<u>18,174</u>	<u>1,616</u>	<u>14,009</u>
City Clerk					
Personal services	40,500	40,500	47,447	(6,947)	39,901
Other services and charges	9,000	9,000	9,069	(69)	7,041
Total City Clerk	<u>49,500</u>	<u>49,500</u>	<u>56,516</u>	<u>(7,016)</u>	<u>46,942</u>
City hall					
Supplies	6,040	6,040	5,935	105	5,881
Other services and charges	46,150	46,150	49,445	(3,295)	41,253
Total city hall	<u>52,190</u>	<u>52,190</u>	<u>55,380</u>	<u>(3,190)</u>	<u>47,134</u>
Elections					
Other services and charges	<u>1,000</u>	<u>1,000</u>	<u>1,555</u>	<u>(555)</u>	<u>1,625</u>
Assessor					
Other services and charges	<u>9,500</u>	<u>9,500</u>	<u>9,545</u>	<u>(45)</u>	<u>9,005</u>
Legal					
Other services and charges	<u>11,000</u>	<u>11,000</u>	<u>15,696</u>	<u>(4,696)</u>	<u>11,155</u>
Planning and zoning					
Other services and charges	<u>4,000</u>	<u>4,000</u>	<u>1,633</u>	<u>2,367</u>	<u>2,197</u>
Total General Government	<u>146,980</u>	<u>146,980</u>	<u>158,499</u>	<u>(11,519)</u>	<u>132,067</u>
Public safety					
Police					
Supplies	-	-	-	-	3,395
Other services and charges	66,900	66,900	94,223	(27,323)	63,913
Total police	<u>66,900</u>	<u>66,900</u>	<u>94,223</u>	<u>(27,323)</u>	<u>67,308</u>
Fire					
Personal services	25,800	25,800	18,215	7,585	25,086
Supplies	1,800	1,800	-	1,800	1,386
Other services and charges	102,910	102,910	57,906	45,004	105,384
Total fire	<u>130,510</u>	<u>130,510</u>	<u>76,121</u>	<u>54,389</u>	<u>131,856</u>
Building inspection					
Other services and charges	<u>4,900</u>	<u>4,900</u>	<u>5,092</u>	<u>(192)</u>	<u>5,524</u>
Total Public Safety	<u>202,310</u>	<u>202,310</u>	<u>175,436</u>	<u>26,874</u>	<u>204,688</u>

City of Loretto, Minnesota  
General Fund  
Budgetary Comparison Schedule - Regulatory Basis (Continued)  
For the Year Ended December 31, 2023  
(With Comparative Actual Amounts for the Year Ended December 31, 2022)

	2023			Variance with Final Budget	2022
	Budgeted Amounts		Actual		Actual
	Original	Final	Amounts		Amounts
Disbursements (Continued)					
Current (continued)					
Streets and highways					
Street maintenance					
Personal services	\$ 88,830	\$ 88,830	\$ 93,008	\$ (4,178)	\$ 81,890
Supplies	3,000	3,000	3,156	(156)	2,639
Other services and charges	103,700	103,700	128,946	(25,246)	110,473
Total street maintenance	<u>195,530</u>	<u>195,530</u>	<u>225,110</u>	<u>(29,580)</u>	<u>195,002</u>
Snow and ice removal					
Supplies	<u>10,000</u>	<u>10,000</u>	<u>24,553</u>	<u>(14,553)</u>	<u>8,886</u>
Street lighting					
Other services and charges	<u>20,000</u>	<u>20,000</u>	<u>19,583</u>	<u>417</u>	<u>18,087</u>
Total Streets and Highways	<u>225,530</u>	<u>225,530</u>	<u>269,246</u>	<u>(43,716)</u>	<u>221,975</u>
Culture and recreation					
Parks					
Personal services	26,240	26,240	26,647	(407)	24,083
Supplies	6,000	6,000	32,088	(26,088)	12,570
Other services and charges	<u>50,500</u>	<u>50,500</u>	<u>59,285</u>	<u>(8,785)</u>	<u>55,469</u>
Total culture and recreation	<u>82,740</u>	<u>82,740</u>	<u>118,020</u>	<u>(35,280)</u>	<u>92,122</u>
Miscellaneous					
Unallocated	<u>755</u>	<u>755</u>	<u>432</u>	<u>323</u>	<u>1,260</u>
Capital outlay					
General government	5,000	5,000	1,000	4,000	1,800
Public safety	-	-	6,403	(6,403)	-
Streets and highways	2,500	2,500	3,500	(1,000)	5,000
Culture and recreation	<u>34,000</u>	<u>34,000</u>	<u>52,608</u>	<u>(18,608)</u>	<u>56,835</u>
Total capital outlay	<u>41,500</u>	<u>41,500</u>	<u>63,511</u>	<u>(22,011)</u>	<u>63,635</u>
Total Disbursements	699,815	699,815	785,144	(85,329)	715,747
Other Financing Uses					
Transfers out	<u>-</u>	<u>-</u>	<u>10,000</u>	<u>(10,000)</u>	<u>90,500</u>
Total Disbursements and Other Financing Uses	<u>699,815</u>	<u>699,815</u>	<u>795,144</u>	<u>(95,329)</u>	<u>806,247</u>
Budgetary Cash Fund Balances, December 31	<u>\$ 591,554</u>	<u>\$ 591,554</u>	<u>\$ 549,833</u>	<u>\$ (41,721)</u>	<u>\$ 591,554</u>

City of Loretto, Minnesota  
 Summary Financial Report  
 Receipts and Disbursements for General Operations -  
 Governmental Funds  
 For the Years Ended December 31, 2023 and 2022

	Total		Percent Increase (Decrease)
	2023	2022	
<b>Receipts</b>			
Taxes	\$ 597,139	\$ 572,008	4.39 %
Licenses and permits	33,745	24,991	35.03
Intergovernmental	84,543	517,546	(83.66)
Charges for services	12,999	12,364	5.14
Fines and forfeitures	1,267	2,762	(54.13)
Special assessments	23,530	46,202	(49.07)
Interest on investments	34,537	15,268	126.21
Miscellaneous	59,642	60,801	(1.91)
<b>Total Receipts</b>	<b>\$ 847,402</b>	<b>\$ 1,251,942</b>	<b>(32.31) %</b>
Per Capita	\$ 1,380	\$ 1,935	(28.68) %
<b>Disbursements</b>			
<b>Current</b>			
General government	\$ 158,499	\$ 132,067	20.01 %
Public safety	175,436	204,688	(14.29)
Streets and highways	269,246	221,975	21.30
Culture and recreation	118,020	92,122	28.11
Miscellaneous	432	1,260	(65.71)
<b>Capital outlay</b>			
General government	1,000	1,800	(44.44)
Public safety	36,403	-	100.00
Streets and highways	90,500	368,920	(75.47)
Culture and recreation	59,117	61,662	(4.13)
<b>Debt service</b>			
Principal	50,000	-	100.00
Interest and other charges	14,487	14,517	(0.21)
<b>Total Disbursements</b>	<b>\$ 973,140</b>	<b>\$ 1,099,011</b>	<b>(11.45) %</b>
Per Capita	\$ 1,585	\$ 1,699	(6.69) %
<b>Total Long-term Indebtedness</b>	<b>\$ 870,000</b>	<b>\$ 920,000</b>	<b>(5.43) %</b>
Per Capita	1,417	1,422	(0.35)
<b>General Fund Balance - December 31</b>	<b>\$ 549,833</b>	<b>\$ 591,554</b>	<b>(7.05) %</b>
Per Capita	895	914	(2.06)

The purpose of this report is to provide a summary of financial information concerning the City of Loretto to interested citizens. The complete financial statements may be examined at City Hall, 279 North Medina Street, Suite 260, Loretto, Minnesota 55357. Questions about this report should be directed to Mary Schneider, City Clerk at (763) 479-4305.



SUPPLEMENTARY INFORMATION - UNAUDITED

CITY OF LORETTO  
LORETTO, MINNESOTA

FOR THE YEAR ENDED  
DECEMBER 31, 2023

City of Loretto, Minnesota  
 Supplementary Information - Unaudited  
 December 31, 2023

**Schedule of Accounts Receivable**

Fund	Source of Revenue and Purpose	Amount
General	December Interest Allocation	<u>\$ 5,879</u>

**Schedule of Accounts Payable and Contingent Liabilities**

Fund	Vendor Name	Item and Purpose	Amount
General	Xcel energy	Electric Utility	\$ 1,565
General	Gregerson, Rosow, Johnson & Nilan	December criminal legal	1,235
General	Xcel energy	Electric Utility	397
General	MN Dept of Labor and Industry	Building permit surcharge	308
General	Campbel Knutson	December civil legal	295
General	Fish & LaBeau Signs	Holiday train banner update	45
General	Accrued wages and compensated absences	Payroll	<u>9,843</u>
	Total		<u>\$ 13,688</u>

OTHER REQUIRED REPORTS

CITY OF LORETTO  
LORETTO, MINNESOTA

FOR THE YEAR ENDED  
DECEMBER 31, 2023

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**INDEPENDENT AUDITOR'S REPORT  
ON MINNESOTA LEGAL COMPLIANCE**

Honorable Mayor and City Council  
City of Loretto, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States the financial statements of each major fund of the governmental and proprietary funds and the aggregate remaining fund information of the City of Loretto, Minnesota (the City) as of and for the year ended December 31, 2023, and the related notes to the financial statements, and have issued our report thereon dated March 26, 2024. In our report, our opinion was adverse because the City prepares its financial statements on the regulatory basis, which is a special purpose framework other than accounting principles generally accepted in the United States of America.

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

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

A handwritten signature in black ink that reads 'Abdo'.

**Abdo**  
Minneapolis, Minnesota  
March 26, 2024

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

Honorable Mayor and City Council  
City of Loretto, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of each major fund of the governmental and proprietary funds and the aggregate remaining fund information of the City of Loretto, Minnesota (the City), as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 26, 2024. In our report, our opinion was adverse because the City prepares its financial statements on the regulatory basis, which is a special purpose framework other than accounting principles generally accepted in the United States of America.

**Report on Internal Control Over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We identified certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as items 2023-001 and 2023-002 that we consider to be significant deficiencies.

**Report on Compliance and Other Matters**

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

## Response to Findings

The City's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

## Purpose of this Report

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



**Abdo**  
Minneapolis, Minnesota  
March 26, 2024



City of Loretto, Minnesota  
Schedule of Findings and Responses  
For the Year Ended December 31, 2023

<u>Finding</u>	<u>Description</u>
<b>2023-001</b>	<b>Limited Segregation of Duties</b>
<i>Condition:</i>	During our audit we reviewed procedures over disbursements, cash receipts, payroll and utility billing and found the City to have limited segregation of duties over those transaction cycles.
<i>Criteria:</i>	There are four general categories of duties: authorization, custody, record keeping and reconciliation. In an ideal system, different employees perform each of these four major functions. In other words, no one person has control of two or more of these responsibilities.
<i>Cause:</i>	As a result of the limited number of staff, in the disbursements cycle, the City Clerk has control over check stock, enters transactions into the accounting system, receives the bank statement, and also reconciles the bank account on a monthly basis. In the receipts cycle, the Utility Clerk opens mail, posts to the utility billing software and prepares the deposit. In the payroll cycle, the City Clerk has control over the checks, sets up employee records, approves timesheets and the payroll, posts to the general ledger and reconciles bank accounts. In the utility billing cycle, the City Council approves rates but the Utility Clerk, does all other duties, with oversight by the City Clerk.
<i>Effect:</i>	The existence of this limited segregation of duties increases the risk of fraud.
<i>Recommendation:</i>	While we recognize staff is not large enough to eliminate this deficiency, we recommend that the City evaluate the current procedures and segregate duties where possible and implement any compensating controls. Compensating controls could consist of additional monitoring and review, such as approving all adjustments with utility billing, review of payroll records, and review of bank statements prior to the City Clerk receiving them. It is important that the City Council is aware of this condition and monitor all financial information.
<i>Management Response:</i>	Management recognizes that it is not economically feasible to correct this finding, is aware of the deficiency and is relying on oversight by management and the City Council to monitor this deficiency.



City of Loretto, Minnesota  
Schedule of Findings and Responses (Continued)  
For the Year Ended December 31, 2023

<u>Finding</u>	<u>Description</u>
<b>2023-002</b>	<b>Preparation of Financial Statements</b>
<i>Condition:</i>	As in prior years, we were requested to draft the audited financial statements and related footnote disclosures as part of our regular audit services. Auditing standards require auditors to communicate this situation to the City Council as an internal control deficiency. Ultimately, it is management's responsibility to provide for the preparation of your statements and footnotes, and the responsibility of the auditor to determine the fairness of presentation of those statements. From a practical standpoint we do both for you at the same time in connection with our audit. This is not unusual for us to do with organizations of your size. However, based on auditing standards, it is our responsibility to inform you that this deficiency could result in a material misstatement to the financial statements that could have been prevented or detected by your management. Essentially, the auditors cannot be part of your internal control process.
<i>Criteria:</i>	Internal controls should be in place to provide reasonable assurance over financial reporting.
<i>Cause:</i>	From a practical standpoint we do both for you at the same time in connection with our audit. This is not unusual for us to do with an organization of your size.
<i>Effect:</i>	The effectiveness of the internal control system relies on enforcement by management. The effect of deficiencies in internal controls can result in undetected errors in financial reporting.
<i>Recommendation:</i>	It is your responsibility to make the ultimate decision to accept this degree of risk associated with this condition because of cost or other considerations. As in prior years, we have instructed management to review a draft of the auditor prepared financials in detail for their accuracy; we have answered any questions they might have, and have encouraged research of any accounting guidance in connection with the adequacy and appropriateness of classification of disclosure in your statements. We are satisfied that the appropriate steps have been taken to provide you with the completed financial statements. While the City is reviewing the financial statements, we recommend a disclosure checklist is utilized to ensure all required disclosures are presented and the City should agree its financial software to the numbers reported in the financial statements.
<i>Management Response</i>	For now, the City's management accepts the degree of risk associated with this deficiency and thoroughly reviews a draft of the financial statements.