

**CITY OF WAHKON
WAHKON, MINNESOTA**

YEAR ENDED DECEMBER 31, 2023



Hoffman, Philipp, & Martell, PLLC

**CITY OF WAHKON
WAHKON, MINNESOTA**

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WAHKON, MINNESOTA**

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INTRODUCTORY SECTION

**CITY OF WAHKON
WAHKON, MINNESOTA**

**ORGANIZATION SCHEDULE
DECEMBER 31, 2023**

<u>City Council</u>	<u>Position</u>	<u>Term Expires</u>
Elected		
Ronda Bjornson	Mayor	December 31, 2024
Chip Frederickson	Council	December 31, 2026
Anthony (Tony) Button	Council	December 31, 2024
Rick Roberts	Council	December 31, 2026
John William (Bill) Thompson	Council	December 31, 2024
Appointed		
Karrie Roeschlein	City Clerk/Treasurer	Indefinite

FINANCIAL SECTION

Colleen Hoffman, Director
Crystelle Philipp, CPA
Marit Martell, CPA



Hoffman, Philipp, & Martell, PLLC

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INDEPENDENT AUDITOR'S REPORT

City Council
City of Wahkon

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying cash basis financial statements of the governmental activities, business-type activities, and the major funds of the City of Wahkon, Minnesota, as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the City of Wahkon's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, business-type activities, and the major funds of the City of Wahkon, as of December 31, 2023, and the respective changes in cash basis financial position, for the year then ended in accordance with the cash basis of accounting as prescribed by the Minnesota Office of the State Auditor.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City of Wahkon 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.

Emphasis of Matter – Basis of Accounting

We draw attention to Note I.C. of the financial statements, which describes the basis of accounting. The financial statements are prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the cash basis of accounting as described in Note I.C., as prescribed by the Minnesota Office of the State Auditor, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City of Wahkon's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used in 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 that raise substantial doubt about the City of Wahkon'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 in our audit.

Required Supplementary Information

The cash basis of accounting as prescribed by the Minnesota Office of the State Auditor requires that the Management's Discussion and Analysis, the budgetary comparison information, the Schedule of Receivables and Payables, and the Schedule of Indebtedness as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or

historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Management is responsible for the other information included in the annual report. The other information is comprised of the Introductory Section and the Schedule of Intergovernmental Receipts as listed in the table of contents but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

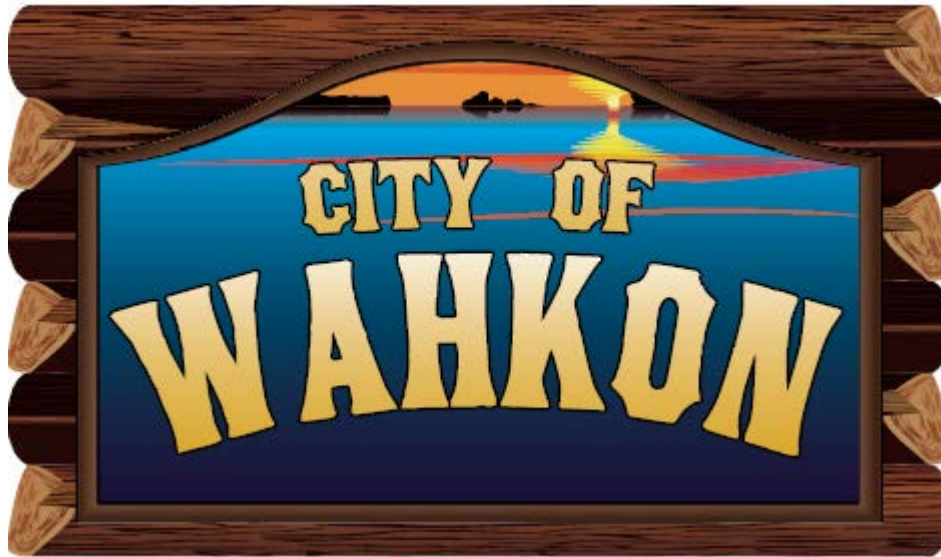
In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated.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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2024, on our consideration of the City of Wahkon's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Wahkon'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 of Wahkon's internal control over financial reporting and compliance.



Hoffman, Philipp, & Martell, PLLC
March 22, 2024



MANAGEMENT'S DISCUSSION AND ANALYSIS

(Unaudited)

The management of the City of Wahkon offers readers of the City's Financial Statements this narrative overview and analysis of the financial activities of the City of Wahkon for the fiscal year ended December 31, 2023. The Management's Discussion and Analysis provides comparisons with the previous year and is designed to focus on the current year's activities, resulting changes, and currently known facts, and should be read in conjunction with the City's basic financial statements that follow this section.

FINANCIAL HIGHLIGHTS

The total net cash position of governmental activities is \$602,495, of which \$83,500 is restricted for debt service and \$518,995 is unrestricted. The total net cash position of governmental activities decreased by \$8,411 for the year ended December 31, 2023. This is attributed primarily to underbudgeted revenues in general government, public safety, and culture and recreation.

The total net cash position of business-type activities is \$723,045, all of which is unrestricted. The total net position of business-type activities increased by \$499,294 in 2023, primarily as a result of bond proceeds which will be used for the upcoming waste water project

At the close of 2023, the City's governmental funds reported combined ending cash fund balances of \$602,495, a decrease of \$8,411 from the prior year. Of the total cash fund balance amount, \$83,500 is restricted for debt service, \$182,505 is assigned to debt service, and \$336,490 is noted as the unassigned fund balance. Maintaining an adequate fund balance is necessary to provide City services throughout the year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements, which are comprised of three components: government-wide financial statements, fund financial statements, and notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, based on the cash basis of reporting.

The *Statement of Net Cash Position* presents information on all of the City's cash assets and net cash assets. Over time increases or decreases in net cash assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *Statement of Activities Arising from Cash Transactions* presents information showing how the City's net cash assets changed during the fiscal year. All changes in net cash assets are based on the cash receipts and disbursements that have taken place for the fiscal year.

In the *Statement of Net Cash Position* and the *Statement of Activities Arising from Cash Transactions*, we divide the City into two kinds of activities:

- **Governmental activities**—Most of the City's basic services are reported here, including general government, public safety, highways and streets, culture and recreation, principal paid on long-term debt, and interest paid on long term debt. Fees, charges, fines and other, intergovernmental receipts, and property taxes finance most of these activities
- **Business-type activities**—The City charges fees to cover the costs of certain services it provides. Included here are the operations of the wastewater utilities.

The government-wide financial statements can be found as Exhibits 1 and 2 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Wahkon, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, fund-level financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's short-term financing decisions.

Both the *Statement of Balances Arising from Cash Transactions – Governmental Funds* and the *Statement of Cash Receipts, Disbursements, and Changes in Cash Fund Balances – Governmental Funds* provide a reconciliation to facilitate the comparison between governmental funds and governmental activities.

The City reports two governmental fund types: General and Debt Service. *Statement of Balances Arising from Cash Transactions – Governmental Funds* and in the *Statement of Cash Receipts, Disbursements, and Changes in Cash Fund Balances – Governmental Funds* for the General Fund and the Debt Service Fund, both of which are considered to be major funds.

The City of Wahkon adopts an annual budget for its General Fund. A Budgetary comparison schedule has been provided for this fund to demonstrate compliance with their budgets.

Proprietary Funds The City of Wahkon maintains one proprietary fund – the Wastewater Enterprise Fund which is used to account for the activities of the City’s wastewater utility. Financing is provided by charges to residents for services. Proprietary funds provide the same type of information as the government-wide financial statements and are included in the *Statement of Balance Arising from Cash Transactions – Proprietary Fund*, and the *Statement of Receipts, Disbursements, and Changes in Net Cash Position – Proprietary Fund* as a business-type activity. The Wastewater Enterprise Fund is considered to be a major fund.

Notes to the Financial Statements

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide statements. The Notes to the Financial Statements can be found beginning on page 19 of this report.

Other information—In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. The City also provides other information as listed in the table of contents.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Over time, net position serves as a useful indicator of the City’s financial position. The City’s assets exceeded liabilities by \$1,325,540 at the close of 2023. Approximately 6 percent of the City’s net cash position is restricted for debt service and 93 percent of the City’s net position is unrestricted. The unrestricted net position amount of \$1,242,040 as of December 31, 2023, may be used to meet the City’s ongoing obligations to citizens.

The City’s overall financial position increased from last year. Total assets and the total net cash position increased by \$490,883 from the prior year, primarily due to the bond proceeds received for the upcoming wastewater project.

NET CASH POSITION

	Governmental Activities		Business-Type Activities		Total	
	2023	2022	2023	2022	2023	2022
Assets						
Cash and pooled investments	\$ 342,699	\$ 566,822	\$ 210,222	\$ 223,751	\$ 552,921	\$ 790,573
Investments	259,796	44,084	512,823	-	772,619	44,084
Total assets	\$ 602,495	\$ 610,906	\$ 723,045	\$ 223,751	\$ 1,325,540	\$ 834,657
Net position						
Restricted for debt service	\$ 83,500	\$ 83,500	\$ -	\$ -	\$ 83,500	\$ 83,500
Unrestricted	518,995	527,406	723,045	223,751	1,242,040	751,157
Total net cash position	\$ 602,495	\$ 610,906	\$ 723,045	\$ 223,751	\$ 1,325,540	\$ 834,657

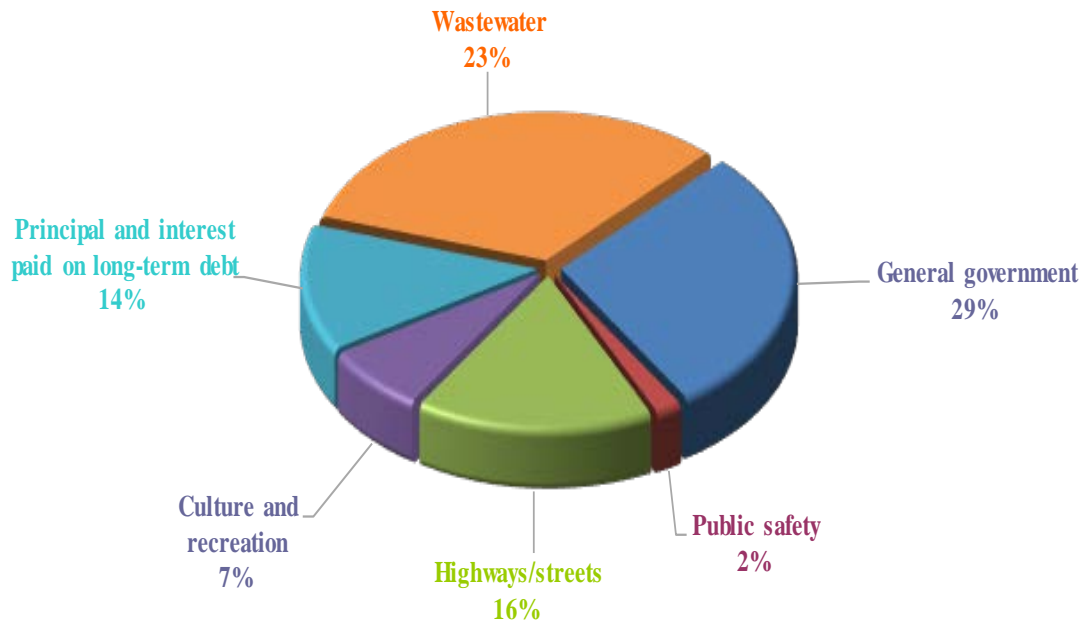
CHANGES IN NET POSITION

	Governmental Activities		Business-Type Activities		Total	
	2023	2022	2023	2022	2023	2022
Receipts						
Program Receipts and Sources						
Fees, charges, fines and other	\$ 17,280	\$ 45,721	\$ 254,852	\$ 239,706	\$ 272,132	\$ 285,427
Intergovernmental	38,293	13,936	540,000	6,769	578,293	20,705
General receipts and transfers						
Property taxes	262,732	247,875	-	-	262,732	247,875
Investment earnings	5,389	1,177	14,912	54	20,301	1,231
Transfers	101,815	103,695	(101,815)	(103,695)	-	-
Total general receipts and transfers	\$ 425,509	\$ 412,404	\$ 707,949	\$ 142,834	\$ 1,133,458	\$ 555,238
Disbursements						
General government	\$ 185,381	\$ 168,439	\$ -	\$ -	\$ 185,381	\$ 168,439
Public safety	11,513	9,375	-	-	11,513	9,375
Highways and streets	104,445	98,099	-	-	104,445	98,099
Culture and recreation	45,766	28,103	-	-	45,766	28,103
Principal paid on long-term debt	80,000	80,000	-	-	80,000	80,000
Interest paid on long-term debt	6,815	8,695	-	-	6,815	8,695
Wastewater	-	-	208,655	107,303	208,655	107,303
Total disbursements	\$ 433,920	\$ 392,711	\$ 208,655	\$ 107,303	\$ 642,575	\$ 500,014
Increase (decrease) in net cash position	\$ (8,411)	\$ 19,693	\$ 499,294	\$ 35,531	\$ 490,883	\$ 55,224
Net cash position, January 1	610,906	591,213	223,751	188,220	834,657	779,433
Net cash position, December 31	\$ 602,495	\$ 610,906	\$ 723,045	\$ 223,751	\$ 1,325,540	\$ 834,657

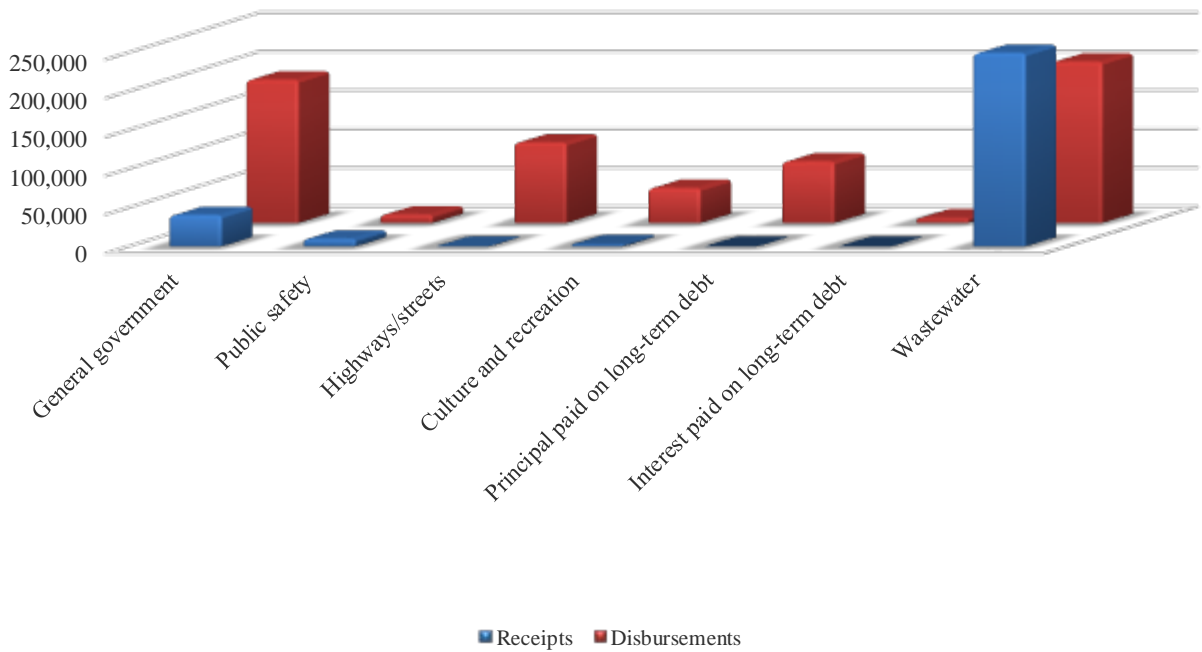
Receipts by Source



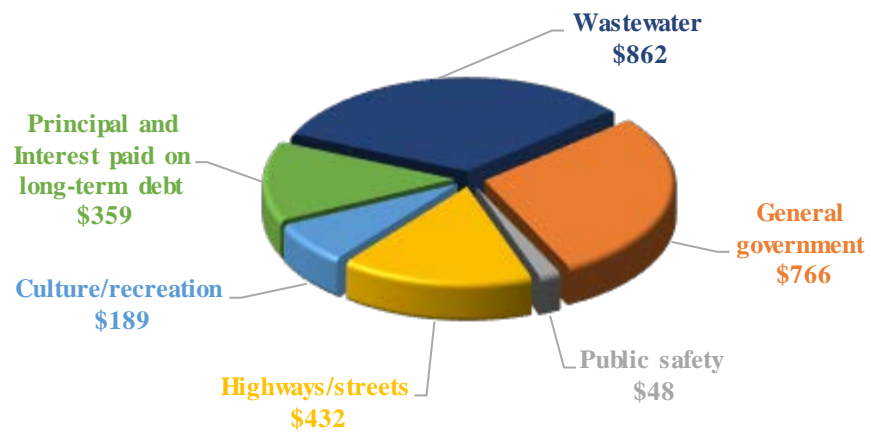
Disbursements by Function



Program Receipts & Disbursements



Expenditures Per Capita 242 Population as of 2023



Governmental Funds

At the end of 2023, the City's governmental funds reported combined ending cash fund balances of \$602,495. Of this amount, approximately 14 percent is restricted for debt service, 30 percent constitutes the assigned fund balance for debt service, and 56 percent constitutes unassigned fund balance.

The General Fund is the operating fund of the City. At the end of the current fiscal year, the General Fund had no committed fund balance, no restricted fund balance, and no assigned fund balance. The unassigned fund balance was \$336,490. As a measure of the General Fund's liquidity, it is useful to compare total cash fund balance to total fund disbursements for 2023. Total unrestricted fund balance represents approximately 97 percent of total General Fund disbursements.

In 2023, the cash fund balance amount in the General Fund decreased by \$11,307, primarily as a result of higher than anticipated disbursements for legal fees and culture and recreation.

The cash fund balance of the Debt Service Fund increased by \$2,896 in 2023 due to interest earnings.

Proprietary Fund

The Wastewater Enterprise Fund reported an operating cash income of \$68,237 in 2023, and after the transfer out for debt service payments, and the receipt of bond proceeds for the upcoming Wastewater project, the Wastewater Enterprise still reported a positive change in net cash position of \$499,294, indicating that it is collecting fees for services at a rate above costs which will be used for rainy day funds and emergencies should they arise.

GENERAL FUND BUDGETARY HIGHLIGHTS

Actual receipts were more than overall final budgeted receipts by \$44,397, with the largest positive variance in gifts and contributions. Actual disbursements were greater than overall final budgeted disbursements by \$31,735, primarily as a result of underbudgeted general government, public safety, and culture and recreation disbursements.

LONG-TERM DEBT

At the end of the current fiscal year, the City had a total debt outstanding of \$790,000 which is backed by the full faith and credit of the government.

	Business-Type Activities	
	2023	2022
General Obligation Refunding Note		
MN Rural Water	\$ 250,000	\$ 330,000
General Obligation Temporary Bonds, 2023A	540,000	-
	<u>\$ 790,000</u>	<u>\$ 330,000</u>

Minnesota Statutes limit the amount of debt that the City may have to three percent of its total market value, excluding revenue bonds. At the end of 2023, overall debt of the City is below the three percent debt limit.

Additional information on the City's long-term debt can be found in the notes to the financial statements.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUND

The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

ECONOMIC FACTORS AND NEXT YEAR'S RATES

- The City depends on financial resources flowing from, or associated with, both the Federal Government and the State of Minnesota. Because of this dependency, the City is subject to changes in specific flows of intergovernmental receipts based on modifications to Federal and State laws and Federal and State appropriations. It is also subject to changes in investment earnings and asset values associated with U.S. Treasury Securities because of actions by foreign governments and other holders of publicly held U.S. Treasury Securities.
- Specific unemployment statistics for the City of Wahkon are not available. However, according to the Minnesota Department of Employment & Economic Development, the unemployment rate for Mille Lacs County was 5.4 percent as of December 31, 2023. This is higher than the statewide rate of 2.6 percent and the national average rate of 3.5 percent.
- Wahkon's 2023 population according to the League of Minnesota Cities was 242, a small increase since the 2022 census of 240.
- On September 28, 2023, the City of Wahkon set its 2024 receipts and disbursements budgets.

REQUESTS FOR INFORMATION

This annual financial report is designed to provide a general overview of the City of Wahkon for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Wahkon Clerk/Treasurer, P.O. Box 8, Wahkon, Minnesota 56386.

BASIC FINANCIAL STATEMENTS

**CITY OF WAHKON
WAHKON, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET CASH POSITION
DECEMBER 31, 2023**

	Governmental Activities	Business-type Activities	Total
<u>Assets</u>			
Cash and pooled investments	\$ 342,699	\$ 210,222	\$ 552,921
Investments	259,796	512,823	772,619
Total Assets	\$ 602,495	\$ 723,045	\$ 1,325,540
<u>Net Cash Position</u>			
Restricted for debt service	\$ 83,500	\$ -	\$ 83,500
Unrestricted	518,995	723,045	1,242,040
Total Net Cash Position	\$ 602,495	\$ 723,045	\$ 1,325,540

**CITY OF WAHKON
WAHKON, MINNESOTA**

**STATEMENT OF ACTIVITIES ARISING FROM CASH TRANSACTIONS
FOR THE YEAR ENDED DECEMBER 31, 2023**

	Program Receipts and Sources			
	Disbursements	Fees, Charges, Fines and Other	Operating Grants and Contributions	Capital Grants and Contributions
Functions/Programs				
Governmental activities				
General government	\$ 185,381	\$ 13,232	\$ 27,791	\$ -
Public safety	11,513	-	10,502	-
Highways and streets	104,445	607	-	-
Culture and recreation	45,766	3,441	-	-
Principal paid on long-term debt	80,000	-	-	-
Interest paid on long-term debt	6,815	-	-	-
Total governmental activities	\$ 433,920	\$ 17,280	\$ 38,293	\$ -
Business-type activities				
Wastewater	208,655	254,852	-	540,000
Total	\$ 642,575	\$ 272,132	\$ 38,293	\$ 540,000

General receipts and transfers

Property taxes
Investment earnings
Transfers

Total general receipts and transfers

Change in net cash position

Net Cash Position - January 1

Net Cash Position - December 31

EXHIBIT 2

Net Cash Sources (Uses) and Changes in Net Cash Position		
Governmental Activities	Business-type Activities	Total
\$ (144,358)	\$ -	\$ (144,358)
(1,011)	-	(1,011)
(103,838)	-	(103,838)
(42,325)	-	(42,325)
(80,000)	-	(80,000)
(6,815)	-	(6,815)
\$ (378,347)	\$ -	\$ (378,347)
-	586,197	586,197
\$ (378,347)	\$ 586,197	\$ 207,850
\$ 262,732	\$ -	\$ 262,732
5,389	14,912	20,301
101,815	(101,815)	-
\$ 369,936	\$ (86,903)	\$ 283,033
\$ (8,411)	\$ 499,294	\$ 490,883
610,906	223,751	834,657
\$ 602,495	\$ 723,045	\$ 1,325,540

**CITY OF WAHKON
WAHKON, MINNESOTA**

EXHIBIT 3

**STATEMENT OF BALANCES ARISING FROM CASH TRANSACTIONS
GOVERNMENTAL FUNDS
DECEMBER 31, 2023**

	General	Debt Service	Total Governmental Funds
<u>Assets</u>			
Cash and pooled investments	\$ 226,771	\$ 115,928	\$ 342,699
Investments	109,719	150,077	259,796
	\$ 336,490	\$ 266,005	\$ 602,495
<u>Liabilities, Deferred Inflows of Resources and Fund Balances</u>			
Cash Fund Balances			
Restricted for debt service	\$ -	\$ 83,500	\$ 83,500
Assigned to debt service	-	182,505	182,505
Unassigned	336,490	-	336,490
	\$ 336,490	\$ 266,005	\$ 602,495
Total Liabilities, Deferred Inflows of Total Cash Fund Balances	\$ 336,490	\$ 266,005	\$ 602,495

**CITY OF WAHKON
WAHKON, MINNESOTA**

EXHIBIT 4

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND
CHANGES IN CASH FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2023**

	General	Debt Service	Total Governmental Funds
Receipts			
Property taxes	\$ 262,732	\$ -	\$ 262,732
Licenses and permits	3,327	-	3,327
Intergovernmental	16,112	-	16,112
Charges for services	9,470	-	9,470
Fines and forfeitures	607	-	607
Gifts and contributions	22,181	-	22,181
Investment earnings	2,493	2,896	5,389
Miscellaneous	3,876	-	3,876
Total Receipts	\$ 320,798	\$ 2,896	\$ 323,694
Disbursements			
Current			
General government	\$ 185,381	\$ -	\$ 185,381
Public safety	11,513	-	11,513
Highways and streets	104,445	-	104,445
Culture and recreation	45,766	-	45,766
Total Current	\$ 347,105	\$ -	\$ 347,105
Debt service			
Principal retirement	\$ -	\$ 80,000	\$ 80,000
Interest	-	6,815	6,815
Total debt service	\$ -	\$ 86,815	\$ 86,815
Total Disbursements	\$ 347,105	\$ 86,815	\$ 433,920
Excess of Receipts Over (Under) Disbursements	\$ (26,307)	\$ (83,919)	\$ (110,226)
Other Financing Sources			
Transfers in	15,000	86,815	101,815
Net Change in Cash Fund Balances	\$ (11,307)	\$ 2,896	\$ (8,411)
Cash Fund Balances - January 1	347,797	263,109	610,906
Cash Fund Balances - December 31	\$ 336,490	\$ 266,005	\$ 602,495

**CITY OF WAHKON
WAHKON, MINNESOTA**

EXHIBIT 5

**STATEMENT OF BALANCE ARISING FROM CASH TRANSACTIONS
PROPRIETARY FUND
DECEMBER 31, 2023**

	<u>Wastewater Enterprise</u>
<u>Assets</u>	
Current Assets	
Cash and pooled investments	\$ 210,222
Investments	<u>512,823</u>
Total Assets	<u>\$ 723,045</u>
<u>Cash Net Position</u>	
Unrestricted amount	<u>\$ 723,045</u>

**CITY OF WAHKON
WAHKON, MINNESOTA**

EXHIBIT 6

**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN NET CASH POSITION
PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2023**

	Wastewater Enterprise
Operating Receipts	
Charges for services	\$ 241,690
Operating Disbursements	
Personnel services	\$ 30,086
Contracted services	65,153
Professional services	10,645
Insurance	4,901
Repairs and maintenance	39,418
Supplies	6,058
Utilities	8,478
Miscellaneous	8,714
	\$ 173,453
Operating Cash Income (Loss)	\$ 68,237
Nonoperating Receipts (Disbursements)	
Special assessments	\$ 10,142
Investment earnings	14,912
Interest expense	(35,202)
Proceeds from issuance of bonds	540,000
Miscellaneous	3,020
	\$ 532,872
Net Cash Income (Loss) Before Transfers	\$ 601,109
Transfers out	(101,815)
Change in Net Cash Position	\$ 499,294
Net Position - January 1	\$ 223,751
Net Cash Position - December 31	\$ 723,045

**CITY OF WAHKON
WAHKON, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2023**

I. Summary of Significant Accounting Policies

The City of Wahkon's financial statements are prepared in conformity with the cash basis of accounting for the year ended December 31, 2023. The significant accounting policies used by the City are discussed below.

A. Financial Reporting Entity

The City of Wahkon is an organized city having the powers, duties, and privileges granted by Minnesota Statutes, Chapter 412. The City operates under a Mayor-Council form of government and provides services such as general government, public safety, highways and streets, culture and recreation, and wastewater.

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (i.e., *Statement of Net Cash Position* and the *Statement of Activities Arising from Cash Transactions*) include the financial activities of the overall City. Eliminations have been made to minimize the double counting of internal activities.

In the government-wide *Statement of Net Cash Position*, the governmental activities are presented on a consolidated basis. The City's cash net position is reported as restricted and unrestricted cash net position.

The *Statement of Activities Arising from Cash Transactions* demonstrates the degree to which the direct disbursements of each function of the City's activities are offset by program receipts. Direct disbursements are those that are clearly identifiable with a specific function or activity. Program receipts include grants and contributions that are restricted to meeting the operational requirements of a particular function or activity. Receipts that are not classified as program receipts, including all taxes, are presented as general receipts.

2. Fund Financial Statements

The fund financial statements provide information about the City's funds. Separate statements for each fund category—governmental, and proprietary—are presented. The emphasis of governmental and proprietary fund financial statements is on major individual governmental and enterprise funds, with each displayed as separate columns in the fund financial statements. All of the City's funds are major funds.

**CITY OF WAHKON
WAHKON, MINNESOTA**

I. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

Proprietary fund operating receipts, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating receipts, such as property taxes, grants, donations, subsidies and investment earnings, result from nonexchange transactions or incidental activities.

The City reports the following major governmental funds:

The General Fund is the City's primary operating fund. It accounts for and reports all financial resources of the general government not accounted for in another fund.

The Debt Service Fund is used to account for and report for all financial resources of the debt service fund restricted and assigned to debt service.

The City reports the following major enterprise fund:

The Wastewater Enterprise Fund is used to account for the activities of the City's wastewater utility.

C. Basis of Accounting

The City of Wahkon's accounts are maintained on a cash basis. Receipts are recorded when cash is received, and disbursements are recognized when checks are issued. These statements do not give effect to accounts receivable, accounts payable, or other accrued items and, therefore are not presented in accordance with generally accepted accounting principles. These procedures are in accordance with the provisions of *City Audited Financial Statements for Cities Under 2,500 Population*, as prescribed by the Minnesota Office of the State Auditor.

D. Cash and Pooled Investments

The City's cash and investments are pooled and invested by the City Clerk/Treasurer for the purpose of increasing earnings through investment activities. Minnesota Statutes, §§ 118A.02 and 118A.04 authorize the City to deposit its cash and to invest in certificates of deposit in financial institutions designated by the City Council. Minnesota statutes require that all City deposits be covered by insurance, surety bond, or collateral. Total investment earnings for 2023 were \$20,301.

E. Net Cash Position and Cash Fund Balance

Net cash position in the government-wide statements is classified in the following categories:

**CITY OF WAHKON
WAHKON, MINNESOTA**

I. Summary of Significant Accounting Policies

E. Net Cash Position and Cash Fund Balance (Continued)

Restricted net cash position – the amount of net cash position for which external restrictions have been imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted net cash position – the amount of net cash position that does not meet the definition of restricted.

In the fund financial statements, the City classifies governmental cash fund balances as follows:

Non-spendable – includes cash fund balance amounts that cannot be spent because it is either not in spendable form or legally or contractually required to be maintained intact. The City does not have any non-spendable cash fund balance as of December 31, 2023.

Restricted – includes cash fund balance amounts that are constrained for specific purposes which are either externally imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Committed – includes cash fund balance amounts that are constrained for specific purposes imposed by resolution of the City Council and do not lapse at year-end. To remove the constraint on specified use of committed resources the City Council shall pass a resolution. The City does not have any committed cash fund balance as of December 31, 2023.

Assigned – includes cash fund balance amounts that are intended to be used for specific purposes that are neither restricted nor committed. The City Council has delegated the authority to assign and remove assignments of cash fund balance amounts for specified purposes to the City Clerk/Treasurer.

Unassigned – includes positive cash fund balance within the General Fund, which has not been classified within the above-mentioned categories, and negative cash fund balances in other governmental funds.

Stabilization arrangements are defined as formally setting aside amounts for use in emergency situations or when revenue shortages or budgetary imbalances arise. The City Council will set aside amounts by resolution as deemed necessary that can only be expended when a cash fund balance reaches a negative balance and as the need for stabilization arises. The need for stabilization will only be utilized for situations that are not expected to occur routinely. The city does not identify a stabilization balance as of December 31, 2023.

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. When committed, assigned or unassigned resources are available for use, it is the City’s policy to use resources in the following order: 1) committed, 2) assigned, and 3) unassigned.

**CITY OF WAHKON
WAHKON, MINNESOTA**

II. Detailed Notes on All Funds

A. Assets

1. Cash and Pooled Investments

Reconciliations of the City’s total cash and pooled investments to the basic financial statements, as of December 31, 2023, are as follows:

Governmental Activities	
Cash and pooled investments	\$ 602,495
 Business-Type Activities	
Cash and pooled investments	723,045
Total Cash and Deposits	\$ 1,325,540
 Deposits and Investments	
Cash on hand	\$ 102
Checking accounts	766,288
Investments	559,150
Total Deposits and Investments	\$ 1,325,540

Deposits

Minnesota Statutes, §§ 118A.02 and 118A.04 authorize the City to deposit its cash and to invest in certificates of deposit in financial institutions designated by the Board. Minnesota Statute, § 118A.03 requires that all City deposits be covered by insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit plus accrued interest at the close of the financial institution’s banking day, not covered by insurance or bonds.

Authorized collateral includes treasury bills, notes, and bonds; issues of U.S. government agencies; general obligations rated “A” or better, revenue obligations rated “AA” or better; irrevocable standard letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution not owned or controlled by the financial institution furnishing the collateral.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the City’s deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. However, the City complies with Minnesota statutes in establishing authorized collateral for deposits. As of December 31, 2023, the City’s deposits were not exposed to custodial credit risk.

**CITY OF WAHKON
WAHKON, MINNESOTA**

II. Detailed Notes on All Funds

A. Assets (Continued)

2. Investments

Minnesota Statutes, §§ 118A.04 and 118A.05 generally authorize the following types of investments available to the City:

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as high risk by Minnesota Statute, § 118A.04, subdivision 6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- (3) general obligations of the State of Minnesota and its municipalities, and certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) bankers' acceptances of United States banks;
- (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. At December 31, 2023, the City had the following investments and maturities:

	Fair Value	Less Than 1 Year	1-5 Years
Government Bonds	\$ 52,950	\$ 48,978	\$ 3,972
US Treasury	159,427	140,010	19,417
Certificates of Deposits	297,068	297,068	
Money Market	49,705	49,705	-
Total Investments	\$ 559,150	\$ 535,761	\$ 23,389
	100%	96%	4%

**CITY OF WAHKON
WAHKON, MINNESOTA**

II. Detailed Notes on All Funds

A. Assets

2. Investments (Continued)

Credit Risk

Generally, a credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. It is the City’s policy to invest only in securities that meet the ratings requirements set by state statute.

The City’s exposure to credit risk as of December 31, 2023, is as follows:

	S & P Rating	Fair Value
US Treasury (by S&P Rating)	AAA	\$ 29,170
US Treasury	N/A	130,258
Negotiable Certificates of Deposit	NR	297,068
Government Bonds (by S&P Rating)	AA+	13,965
Government Bonds (by S&P Rating)	AAA	24,994
Corporate Bonds (by S&P Rating)	AAA	13,990
Money Market	N/A	3,378
4M	NR	46,327
		\$ 559,150

N/A – not applicable
N/R – not rated

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. The City does not have a policy on custodial credit risk. Some brokers have excess SIPC coverage which may mitigate all or part of custodial credit risk. At December 31, 2023, the City’s investments were not exposed to custodial credit risk.

**CITY OF WAHKON
WAHKON, MINNESOTA**

II. Detailed Notes on All Funds

A. Assets

2. Investments (Continued)

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by the City’s investment in a single issuer, excluding U.S. guaranteed investments, external investment pools, and mutual funds.

Investments in any one issuer that represent five percent or more of the City’s investments are:

Issuer	Fair Value	Concentration Percentage
Certificates of Deposit	297,068	22.41%

Fair Value Measurement

The City measures and records its investments using fair value measurement guidelines established by generally accepted accounting principles. These guidelines recognize a three-tiered fair value hierarchy, as follows:

- Level 1: Quoted prices for identical investments in active markets;
- Level 2: Observable inputs other than quoted market prices; and;
- Level 3: Unobservable inputs.

At December 31, 2023, the City had the following recurring fair value measurements:

	December 31, 2023	Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)
Investments by fair value level			
Negotiable CD's	\$ 297,068	\$ -	\$ 297,068
U.S. Government Securities	159,427	-	159,427
Municipal Bonds	38,960	-	38,960
Corporate Bonds	13,990	13,990	-
Money Market	49,705	49,705	-
Total Investments by fair value level	\$ 559,150	\$ 63,695	\$ 495,455

**CITY OF WAHKON
WAHKON, MINNESOTA**

II. Detailed Notes on All Funds

A. Assets

2. Investments

Fair Value Measurement (Continued)

All Level 2 debt securities are valued using a market approach based on the securities' relationship to benchmark quoted prices. The City had no Level 3 investments.

B. Property Taxes

Taxes are billed by Mille Lacs County to individual property owners within the City of Wahkon annually and, are paid in two equal installments on or before May 15 and October 15 without penalty. Mille Lacs County is the collecting agency for these levies and remits the collections to the City three times a year. Tax collections are ordinarily recorded in the City's receipts register when received.

C. Interfund Transfers

Interfund transfers for the year ended December 31, 2023, consisted of the following operating transfers:

Transfer to General Fund from Wastewater Enterprise Fund	\$	15,000	Operating transfers
Transfer to Debt Service Fund from Wastewater Enterprise Fund		86,815	Debt payment
Total Interfund Transfers	\$	101,815	

D. Long-Term Liabilities

Compensated Absences

Under the City's personnel policies, employees are granted vacation and sick leave in varying amounts based on their length of service. Vested vacation leave at December 31, 2023, in the amount of \$7,913, is paid at termination. The liability for this amount is not reported in the financial statements as they are presented on the cash basis of accounting. Unvested sick leave, approximately \$1,625 at December 31, 2023 is available to employees in the event of illness-related absences and is not paid to them at termination. Compensated absences are generally liquidated by the General Fund and the Wastewater Enterprise Fund.

**CITY OF WAHKON
WAHKON, MINNESOTA**

II. Detailed Notes on All Funds

D. Long-Term Liabilities (Continued)

Long-Term Debt

Business-Type Activities

City of Wahkon Minnesota Rural Water General Obligation Refunding Notes of 2013 represent debt incurred for a wastewater project. These notes have an original issue amount of \$835,000, carry a net interest rate of 2.350 percent and are due in annual payments from the Wastewater Enterprise Fund of \$80,000 to \$85,000 through February 1, 2026. The balance due on these notes at December 31, 2023 is \$250,000.

City of Wahkon General Obligation Temporary Bonds of 2023A represent debt incurred for a wastewater project. These bonds have an original issue amount of \$540,000, carry a net interest rate of 3.800 percent and are due in biannual interest payments from the Wastewater Enterprise Fund of \$10,260 to \$12,084, and one principal payment of \$540,000 due February 1, 2026, which will be paid off with permanent bonds. The balance due on these bonds at December 31, 2023 is \$540,000.

Debt Service Requirements

Debt service requirements for business-type activities for the year ended December 31, 2023, are as follows:

Year Ending December 31	G.O. Refunding Notes		G.O. Refunding 2023A Bonds	
	Principal	Interest	Principal	Interest
2024	\$ 80,000	\$ 4,936	\$ -	\$ 22,344
2025	85,000	2,997	-	20,520
2026	85,000	999	540,000	10,260
Total	<u>\$ 250,000</u>	<u>\$ 8,932</u>	<u>\$ 540,000</u>	<u>\$ 53,124</u>

III. Defined Benefit Pension Plan

A. Plan Description

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

**CITY OF WAHKON
WAHKON, MINNESOTA**

III. Defined Benefit Pension Plan

A. Plan Description (Continued)

General Employees Retirement Plan

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

B. Benefits Provided

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

General Employees Plan Benefits

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

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

**CITY OF WAHKON
WAHKON, MINNESOTA**

III. Defined Benefit Pension Plan (Continued)

C. Contributions

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

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 of Wahkon was required to contribute 7.50 percent for Coordinated Plan members. The City of Wahkon’s contributions to the General Employees Fund for the year ended December 31, 2023, were \$8,659. The City of Wahkon’s contributions were equal to the required contributions as set by state statute.

D. 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.

IV. Public Employees Defined Contribution Plan (Defined Contribution Plan)

Five employees of the City of Wahkon are covered by the Defined Contribution Plan, a multiple-employer deferred compensation plan administered by PERA. The Defined Contribution Plan is a tax qualified plan under Section 401(a) of the Internal Revenue Code and all contributions by or on behalf of employees are tax deferred until time of withdrawal.

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative disbursements. *Minnesota Statutes*, Chapter 353D.03, specifies plan provisions, including the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes five percent of salary which is matched by the elected official’s employer. Employees who are paid for their services may elect to make member contributions in an amount not to exceed the employer share. Employer and employee contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives two percent of employer contributions and twenty-five hundredths of one percent (0.25%) of the assets in each member’s account annually.

Total contributions made by the City of Wahkon during fiscal year 2023 were:

Contribution Amount		Percentage of Covered Payroll		Required
Employee	Employer	Employee	Employer	Rate
\$ 868	\$ 868	5%	5%	5%

**CITY OF WAHKON
WAHKON, MINNESOTA**

V. Summary of Significant Contingencies and Other Items

A. Claims and Litigation

The City, in connection with the normal conduct of its affairs, may be involved in various claims, judgments, and litigation. The City Council estimates that the potential claims against the City not covered by insurance resulting from such litigation would not materially affect the financial statements of the City.

B. Risk Management

The City of Wahkon is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to the City's officers and employees; and natural disasters. All risks of loss are insured by the purchase of commercial insurance. There were no significant reductions in insurance coverage from the prior year. There were no settlements in excess of insurance for any of the past three fiscal years.

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF WAHKON
WAHKON, MINNESOTA**

Schedule 1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2023**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Receipts				
Property taxes	\$ 262,600	\$ 262,600	\$ 262,732	\$ 132
Licenses and permits	3,001	3,001	3,327	326
Intergovernmental	-	-	16,112	16,112
Charges for services	5,000	5,000	9,470	4,470
Fines and forfeits	500	500	607	107
Investment earnings	100	100	2,493	2,393
Gifts and contributions	800	800	22,181	21,381
Miscellaneous	4,400	4,400	3,876	(524)
Total Receipts	\$ 276,401	\$ 276,401	\$ 320,798	\$ 44,397
Disbursements				
Current				
General government				
Mayor/council	\$ 11,610	\$ 11,610	\$ 10,536	\$ 1,074
City clerk/treasurer	82,000	82,000	82,080	(80)
Elections	-	-	111	(111)
Professional services	13,000	13,000	13,070	(70)
Legal	4,500	4,500	20,112	(15,612)
Planning and zoning	10,030	10,030	12,114	(2,084)
Buildings and grounds	27,400	27,400	24,552	2,848
Insurance	2,600	2,600	2,633	(33)
Other general government	19,730	19,730	20,173	(443)
Total general government	\$ 170,870	\$ 170,870	\$ 185,381	\$ (14,511)
Public safety				
Fire	\$ -	\$ -	\$ 10,313	\$ (10,313)
Police	-	-	1,200	(1,200)
Total public safety	\$ -	\$ -	\$ 11,513	\$ (11,513)
Highways and streets				
Street department	\$ 96,675	\$ 96,675	\$ 80,271	\$ 16,404
Snow removal	15,125	15,125	17,033	(1,908)
Street lighting	7,300	7,300	7,141	159
Total highways and streets	\$ 119,100	\$ 119,100	\$ 104,445	\$ 14,655

**CITY OF WAHKON
WAHKON, MINNESOTA**

Schedule 1
(Continued)

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2023**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Disbursements				
Current (Continued)				
Culture and recreation				
Parks	\$ 21,400	\$ 21,400	\$ 28,277	\$ (6,877)
Community events	4,000	4,000	17,489	(13,489)
Total culture and recreation	<u>\$ 25,400</u>	<u>\$ 25,400</u>	<u>\$ 45,766</u>	<u>\$ (20,366)</u>
Total Disbursements	<u>\$ 315,370</u>	<u>\$ 315,370</u>	<u>\$ 347,105</u>	<u>\$ (31,735)</u>
Excess of Receipts Over (Under) Disbursements	<u>\$ (38,969)</u>	<u>\$ (38,969)</u>	<u>\$ (26,307)</u>	<u>\$ 12,662</u>
Other Financing Sources				
Transfers in	15,000	15,000	15,000	-
Net Change in Cash Fund Balance	<u>\$ (23,969)</u>	<u>\$ (23,969)</u>	<u>\$ (11,307)</u>	<u>\$ 12,662</u>
Cash Fund Balance - January 1	<u>347,797</u>	<u>347,797</u>	<u>347,797</u>	<u>-</u>
Cash Fund Balance - December 31	<u><u>\$ 323,828</u></u>	<u><u>\$ 323,828</u></u>	<u><u>\$ 336,490</u></u>	<u><u>\$ 12,662</u></u>

**CITY OF WAHKON
WAHKON, MINNESOTA**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2023

I. Budgetary Information

Annual budgets are adopted on a basis consistent with the cash basis of accounting, which is a comprehensive basis of accounting other than principles generally accepted in the United States of America. All annual appropriations lapse at fiscal year-end.

In September of each year, the City Council drafts a preliminary budget after giving interested citizens a reasonable opportunity to be heard. The final budget is approved in December and a certified levy is sent to Mille Lacs County. Truth in taxation requires that a final levy may not exceed a preliminary levy.

The appropriated budget is prepared by fund, function, and department. The legal level of budgetary control (i.e., the level at which disbursements may not legally exceed appropriations) is the departmental level.

II. Excess of Expenditures Over Budget

The following departments had disbursements in excess of budget for the year ended December 31, 2023:

	<u>Disbursements</u>	<u>Budget</u>	<u>Excess</u>
General Fund			
<i>General government</i>			
City clerk/treasurer	\$ 82,080	\$ 82,000	\$ (80)
Elections	111	-	(111)
Professional services	13,070	13,000	(70)
Legal	20,112	4,500	(15,612)
Planning and zoning	12,114	10,030	(2,084)
Insurance	2,633	2,600	(33)
Other general government	20,173	19,730	(443)
<i>Public safety</i>			
Police	10,313	-	(10,313)
Fire	1,200	-	(1,200)
<i>Highways and streets</i>			
Snow removal	17,033	15,125	(1,908)
<i>Culture and recreation</i>			
Parks	28,277	21,400	(6,877)
Community events	17,489	4,000	(13,489)

SUPPLEMENTARY INFORMATION

**CITY OF WAHKON
WAHKON, MINNESOTA**

Schedule 2

**SCHEDULE OF RECEIVABLES AND PAYABLES
FOR THE YEAR ENDED DECEMBER 31, 2023**

	Amount	Purpose
<u>Receivables as of December 31, 2023</u>		
<u>Payee</u>		
Utility customers	\$ 32,288	Wastewater utilities
Mille Lacs County County	498	Tax settlements
	\$ 32,786	
Total	\$ 32,786	
<u>Payables as of December 31, 2023</u>		
<u>Payor</u>		
Atkin Independent	\$ 365	Budget Summary
Aramark	128	Uniform/Rug Rentals
East Central Energy	1,200	Electric
Federated Co-Ops Inc	180	Ice/Snow Removal
Powell, Danielle	100	10% Final Payment
Pace Analytical	316	Gas & Diesel
MLC Attorney	500	Attorney
MCSI	1,444	Copier Lease & IT service
SCI Broadband	44	Phone
Verizon	68	Phone
Weinreich, Jacob	110	Christmas Wreath Replacement
USA Bluebook	1,445	Meter and Cables
MN Department of Revenue	5	2022 Sales Tax
	\$ 5,905	
Total	\$ 5,905	

**CITY OF WAHKON
WAHKON, MINNESOTA**

Schedule 3

**SCHEDULE OF INDEBTEDNESS AND OTHER LONG-TERM LIABILITIES
FOR THE YEAR ENDED DECEMBER 31, 2023**

	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Balance 12/31/2022</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 12/31/2023</u>
Bonded Indebtedness							
General Obligation Temporary Bonds, Series 2023	3.80%	06/12/2023	02/01/2026	\$ -	\$ 540,000	\$ -	\$ 540,000
General Obligation Refunding Notes of 2013	2.35%	02/01/2013	02/01/2026	330,000	-	80,000	250,000
Total Bonded Indebtedness				<u>\$ 330,000</u>	<u>\$ 540,000</u>	<u>\$ 80,000</u>	<u>\$ 790,000</u>
Other Long-Term Indebtedness							
Net Pension Liability							\$ 83,878

**CITY OF WAHKON
WAHKON, MINNESOTA**

Schedule 4

**SCHEDULE OF INTERGOVERNMENTAL RECEIPTS
FOR THE YEAR ENDED DECEMBER 31, 2023**

Shared Revenue	
State	
Public Safety Aid	\$ 10,502
Grants	
State	
Minnesota Department of Transportation	<u>5,610</u>
Total Intergovernmental Receipts	<u><u>\$ 16,112</u></u>

MANAGEMENT AND COMPLIANCE SECTION

Colleen Hoffman, Director
Crystelle Philipp, CPA
Marit Martell, CPA



Hoffman, Philipp, & Martell, PLLC

1541 Highway 59 South | Thief River Falls, MN 56701 | Phone: 218-681-4078 | choffman@hpmaudit.com

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

City Council
City of Wahkon

We have audited, in accordance with the 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 cash basis financial statements of the governmental activities, business-type activities, and the major funds of the City of Wahkon as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the City's cash basis financial statements, and have issued our report thereon dated March 22, 2024.

Report on Internal Control Over Financial Reporting

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

A *deficiency* in internal control over financial reporting 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 over financial reporting such that there is a reasonable possibility that a material misstatement of the City'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 over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses.

However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control over financial reporting, described in the accompanying Schedule of Findings and Responses as item 2023-001 that we consider to be a significant deficiency.

Report on Compliance and Other Matters

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

Minnesota Legal Compliance

The *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minnesota Statute, § 6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing (TIF). Our audit considered all of the listed categories, except tax increment financing because the City of Wahkon has no TIF districts.

In connection with our audit, nothing came to our attention that caused us to believe that the City of Wahkon failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Cities*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City of Wahkon's noncompliance with the above referenced provisions.

City of Wahkon's Response to Finding

The City's response to the finding identified in our audit has been included in the accompanying Schedule of Findings and Responses. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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



Hoffman, Philipp, & Martell, PLLC
March 22, 2024

**CITY OF WAHKON
WAHKON, MINNESOTA**

SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2023

I. FINDINGS RELATED TO FINANCIAL STATEMENTS AUDITED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

Finding Number: 2023-001

Prior Year Finding Number(s): 2022-001

Repeat Finding Since: 2019

Finding Title: Internal Controls and Segregation of Duties

Criteria: The financial statements are the responsibility of the City's management. Internal control over financial reporting is a process designed to provide reliable assurance about the achievement of the City's objectives with regard to reliability of financial reporting and compliance with applicable laws and regulations. These controls must include a process for monitoring controls to ensure effectiveness and efficiency of operations.

Condition: Internal controls over financial reporting and the safeguarding of assets against unauthorized acquisition, use, or disposition include controls related to financial reporting and operational objectives. The City does not have a process for monitoring to ensure the internal controls are effective. Due to the limited number of personnel within the City, segregation of the accounting functions necessary to ensure adequate internal control and monitoring is not possible.

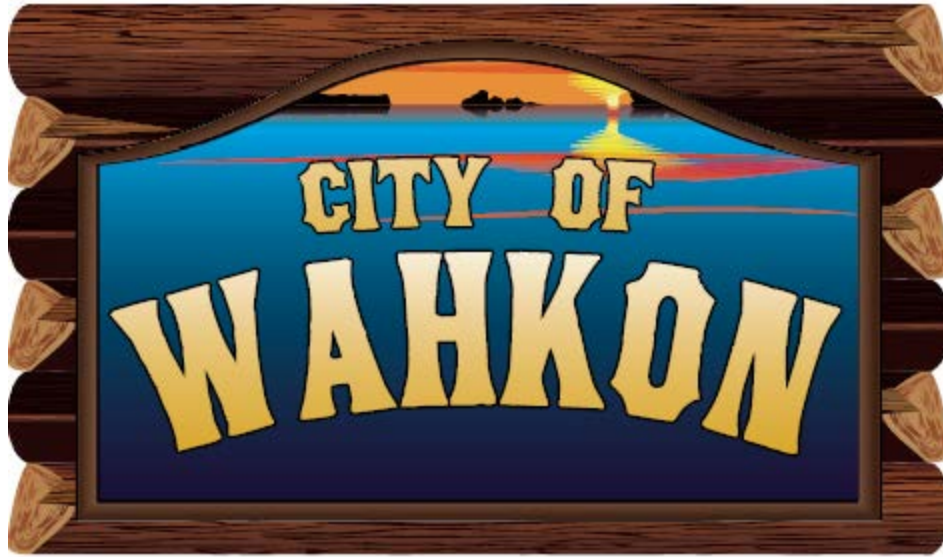
Context: The small size and staffing of the City limits the segregation of duties and internal control that management can design and implement. Although the City of has some controls in spite of limited staff, they do not have a documented process for monitoring those controls.

Effect: Without documented internal controls and a process for monitoring internal controls, the City cannot provide assurance about the reliability of financial reporting or the effectiveness and efficiency of operations. Errors or irregularities may occur and not be detected in a timely manner.

Cause: The City has never formalized its policies and procedures for internal controls and monitoring of those controls into a written comprehensive document.

Recommendation: Management should continually be aware of the lack of reliability of internal controls due to limited segregation of duties. We recommend the City formalize written documentation of their internal controls and the monitoring process to ensure the reliability of financial reporting and compliance with applicable laws and regulations, and the effectiveness and efficiency of operations.

City's Response: *Management is continually aware that segregation of duties is not adequate from an internal control point of view. The City council continues to implement oversight procedures and monitor those procedures to determine if they are still effective. The City will also formalize written documentation of their internal controls and the monitoring process to ensure the reliability of financial reporting and the effectiveness and efficiency of operations.*



CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED DECEMBER 31, 2023

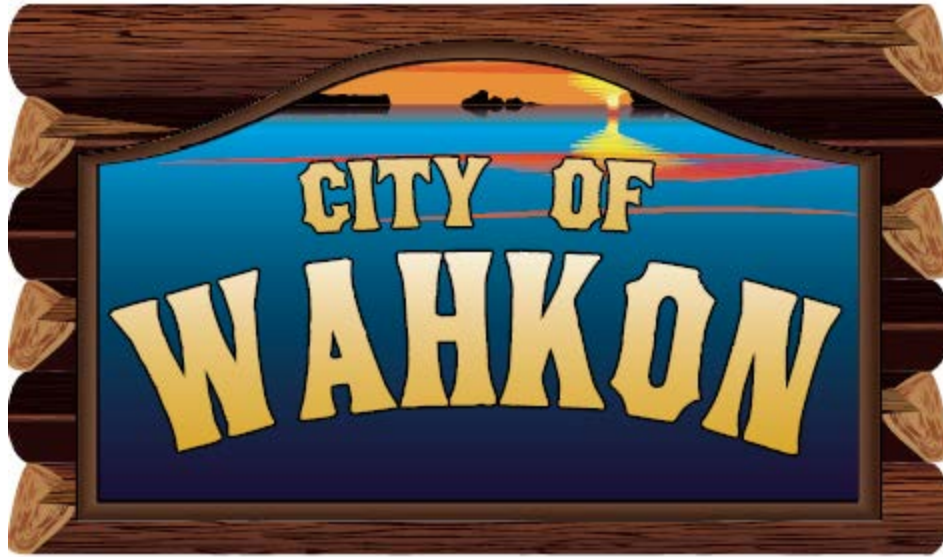
Finding Number: 2023-001

Finding Title: Internal Controls and Segregation of Duties

Name of Contact Person Responsible for Corrective Action: City Council and management

Corrective Action Planned: The City of Wahkon is aware of the segregation of duties issue. Due to limited staffing, segregation of duties is not always possible. Management will implement oversight procedures where and whenever possible.

Anticipated Completion Date: December 31, 2024. *City Council and management are aware of the limited ability to segregate duties to an optimal level; however, oversight procedures have been implemented to provide compensating controls and continue to be improved whenever possible.*



SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2023

Finding Number: 2022-001

Repeat Finding Since: 2019

Finding Title: Segregation of Duties and Internal Controls

Summary of Condition: Due to the limited number of personnel within the City, segregation of the accounting functions necessary to ensure adequate internal accounting control is not possible.

Summary of Corrective Action: Management is continually aware that segregation of duties is not adequate from an internal control point of view. The City Council continues to implement oversight procedures and monitor those procedures to determine if they are still effective.

Status: Not corrected.