



Annual Financial Report

City of Tracy

Tracy, Minnesota

For the year ended December 31, 2021



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City of Tracy, Minnesota
Annual Financial Report
Table of Contents
For the Year Ended December 31, 2021

	Page No.
Introductory Section	
Elected and Appointed Officials	9
Financial Section	
Independent Auditor's Report	13
Management's Discussion and Analysis	17
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Position	31
Statement of Activities	32
Fund Financial Statements	
Governmental Funds	
Balance Sheet	36
Reconciliation of the Balance Sheet to the Statement of Net Position	37
Statement of Revenues, Expenditures and Changes in Fund Balances	38
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	39
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - General Fund	41
Proprietary Funds	
Statement of Net Position	42
Statement of Revenues, Expenses and Changes in Net Position	44
Statement of Cash Flows	46
Notes to the Financial Statements	51
Required Supplementary Information	
Schedule of Employer's Share of Public Employees Retirement Association Net Pension Liability - General Employees Retirement Fund	86
Schedule of Employer's Public Employees Retirement Association Contributions - General Employees Retirement Fund	86
Notes to the Required Supplementary Information - General Employees Retirement Fund	87
Schedule of Employer's Share of Public Employees Retirement Association Net Pension Liability - Public Employees Police and Fire Fund	89
Schedule of Employer's Public Employees Retirement Association Contributions - Public Employees Police and Fire Fund	89
Notes to the Required Supplementary Information - Public Employees Police and Fire Fund	90
Schedule of Changes in the Fire Relief Association's Net Pension Liability (Asset) and Related Ratios	92
Notes to the Required Supplementary Information - Fire Relief Association	93
Schedule of Employer's Fire Relief Association Contributions	94
Combining and Individual Fund Financial Statements and Schedules	
Nonmajor Governmental Funds	
Combining Balance Sheet	96
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	97
Nonmajor Proprietary Funds	
Combining Statement of Net Position	98
Combining Statement of Revenues, Expenses, and Changes in Net Position	99
Combining Statement of Cash Flows	100

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City of Tracy, Minnesota
 Annual Financial Report
 Table of Contents (Continued)
 For the Year Ended December 31, 2021

	Page No.
Combining and Individual Fund Financial Statements and Schedules (Continued)	
Nonmajor Special Revenue Funds	
Combining Balance Sheet	101
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	102
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual	
Cemetery Operating	103
CDBG Grant	104
Economic Development	105
Nonmajor Capital Projects Funds	
Combining Balance Sheet	106
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	107
General Fund	
Comparative Balance Sheet	109
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual	111
Debt Service Funds	
Combining Balance Sheet	116
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	118
Summary Financial Report	
Revenues and Expenditures for General Operations	120
 Other Required Reports and Federal Financial Award Programs	
Independent Auditor's Report on	
Minnesota Legal Compliance	123
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 <i>Government Auditing Standards</i>	124
Independent Auditor's Report on Compliance for Each	
Major Program and on Internal Control	
Over Compliance Required by <i>the Uniform Guidance</i>	126
Schedule of Expenditures of Federal Awards	128
Notes to the Schedule of Expenditures of Federal Awards	129
Schedule of Findings, Responses and Questioned Costs	131
Corrective Action Plans	134
Schedule of Prior Year Findings	136

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INTRODUCTORY SECTION

CITY OF TRACY
TRACY, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2021

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City of Tracy, Minnesota
Elected and Appointed Officials
For the Year Ended December 31, 2021

ELECTED

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Pam Cooreman	Mayor	2023
Seth Schmidt	Mayor Pro Tem	2025
Ron Koopman	Council	2023
Jeri Schons	Council	2023
Dave Tiegs	Council	2023
George Landuyt	Council	2025
Kou Thao	Council	2025

APPOINTED

Erik Hansen	City Administrator
Krista Listul	Finance Director

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FINANCIAL SECTION

CITY OF TRACY
TRACY, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2021

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council
City of Tracy, Minnesota

Report on the Financial Statements

Opinions

We have audited the accompanying financial statements of governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Tracy, Minnesota (the City), as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of December 31, 2021, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the General fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Responsibility for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis starting on page 17 and the Schedule of Employer's Share of the Net Pension Liability, the Schedule of Employers Contributions, the related note disclosures, the Schedule of Employer's Fire Relief Association Contributions and Schedule of Changes in the Fire Relief Association's Net Pension Liability (Asset) and Related Ratios starting on page 86 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual fund financial statements and schedules, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and is also not a required part of the basic financial statements.



The combining and individual fund financial statements and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial statements and the Schedule of Federal Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 21, 2022, 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.



Abdo
Mankato, Minnesota
June 21, 2022



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Management's Discussion and Analysis

As management of the City of Tracy, Minnesota, (the City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2021.

Financial Highlights

- The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$9,999,841 (net position).
- Of this amount \$2,294,055 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net position decreased by \$308,211. This budgeted decrease largely relates to an increase in expenditures within the Streets and Highways department.
- As of the close of the current fiscal year, the City's governmental fund reported combined ending fund balances of \$4,934,507, a decrease of \$1,463,902 in comparison with the prior year. This decrease was due to expenses relating to the Phase III of the Wastewater Project. Approximately 20.9 percent of this total governmental funds or \$1,029,521 is available for spending at the City's discretion including \$388,000 assigned for a specific purpose.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplemental information in addition to the basic financial statements themselves.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of combining and individual fund financial statements and schedules that further explains and supports the information in the financial statements. Figure 1 shows how the required parts of this annual report are arranged and relate to one another. In addition to these required elements, we have included a section with combining and individual fund financial statements and schedules that provide details about nonmajor governmental funds, which are added together and presented in single columns in the basic financial statements.

Figure 1
Required Components of the
City's Annual Financial Report

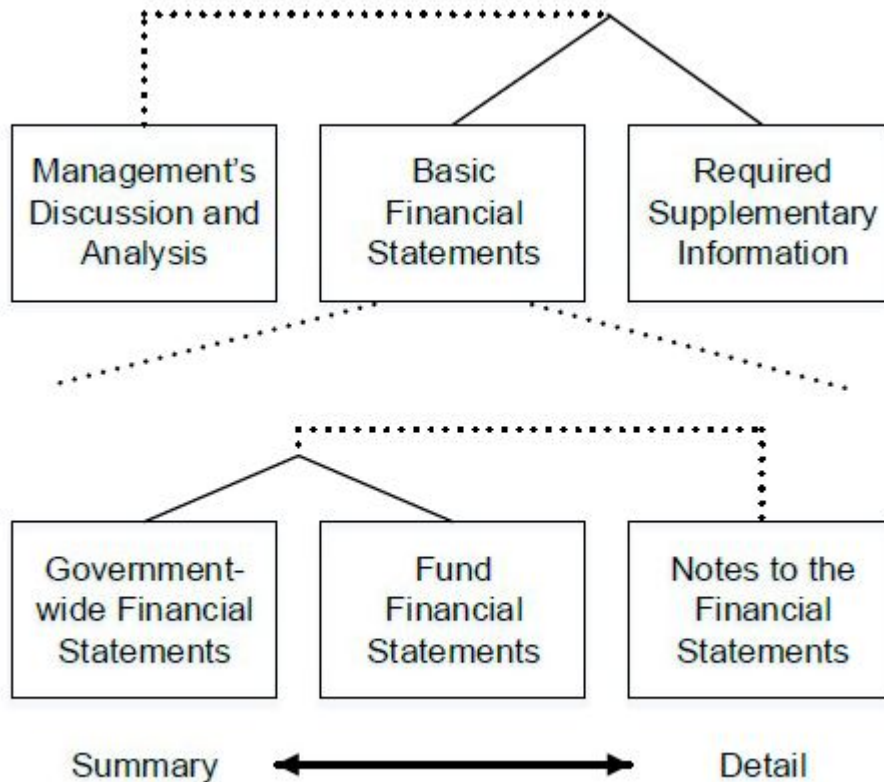


Figure 2 summarizes the major features of the City’s financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis explains the structure and contents of each of the statements.

Figure 2
Major Features of the Government-wide and Fund Financial Statements

	Fund Financial Statements		
	Government-wide Statements	Governmental Funds	Proprietary Funds
Scope	Entire City government (except fiduciary funds) and the City’s component units	The activities of the City that are not proprietary or fiduciary, such as police, fire and parks	Activities the City operates similar to private businesses, such as the water and sewer system
Required financial statements	<ul style="list-style-type: none"> • Statement of Net Position • Statement of Activities 	<ul style="list-style-type: none"> • Balance Sheet • Statement of Revenues, Expenditures, and Changes in Fund Balances 	<ul style="list-style-type: none"> • Statement of Net Position • Statement of Revenues, Expenses and Changes in Fund Net Position • Statement of Cash Flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of deferred outflows/inflows of resources information	All deferred outflows/inflows of resources, regardless of when cash is received or paid.	Only deferred outflows of resources expected to be used up and deferred inflows of resources that come due during the year or soon thereafter; no capital assets included	All deferred outflows/inflows of resources, regardless of when cash is received or paid
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

Government-wide Financial Statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City’s finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the City’s assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the City’s net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenue (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, streets and highway, culture and recreation and economic development and miscellaneous. The business-type activities of the City include Public Housing, Liquor, Water Utility, Sewer Utility, Storm Water, Solid Waste Collection, Public Housing and Deputy Register & License operations.

The government-wide financial statements can be found starting on page 31 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, 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, governmental fund 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 by the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains 15 individual governmental funds, 6 of which are Debt Service funds which are considered one fund for reporting purposes. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General fund, Wastewater Project Phase III fund, Airport Improvement fund and Debt Service fund, all of which are considered to be major funds. Data from the other nonmajor governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements or schedules* elsewhere in this report.

The City adopts an annual appropriated budget for its General fund. Budgetary comparison statements have been provided for this fund to demonstrate compliance with the budget.

The basic governmental fund financial statements can be found starting on page 36 of this report.

Proprietary Funds. The City maintains one type of proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its Liquor, Water utility, Public Housing, Sewer Utility, Solid Waste Collections, Deputy Register and License, and Storm Water.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for each of the enterprise funds which are considered to be major funds of the City.

The basic proprietary fund financial statements can be found starting on page 42 of this report.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found starting on page 51 of this report.

Required Supplementary Information. The required supplementary information can be found starting on page 86 of this report.

Other Information. The combining statements referred to earlier in connection with nonmajor governmental funds are presented following the notes to financial statements. Combining and individual fund financial statements and schedules can be found starting on page 96 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$9,999,841 at the close of the most recent fiscal year.

A large portion of the City's net position (47.2 percent) reflects its investment in capital assets (e.g., land, buildings, machinery and equipment); less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Tracy's Summary of Net Position

	Governmental Activities			Business-type Activities		
	2021	2020	Increase (Decrease)	2021	2020	Increase (Decrease)
Current and Other Assets	\$ 6,626,702	\$ 7,986,157	\$ (1,359,455)	\$ 3,997,043	\$ 7,196,664	\$ (3,199,621)
Capital Assets	8,228,665	7,426,246	802,419	21,493,947	19,192,365	2,301,582
Total Assets	<u>14,855,367</u>	<u>15,412,403</u>	<u>(557,036)</u>	<u>25,490,990</u>	<u>26,389,029</u>	<u>(898,039)</u>
Deferred Outflows of Resources	<u>667,922</u>	<u>289,390</u>	<u>378,532</u>	<u>139,151</u>	<u>37,428</u>	<u>101,723</u>
Long-Term Liabilities Outstanding	9,170,015	9,860,342	(690,327)	19,967,614	20,582,915	(615,301)
Other Liabilities	551,355	388,119	163,236	428,460	649,510	(221,050)
Total Liabilities	<u>9,721,370</u>	<u>10,248,461</u>	<u>(527,091)</u>	<u>20,396,074</u>	<u>21,232,425</u>	<u>(836,351)</u>
Deferred Inflows of Resources	<u>878,036</u>	<u>321,910</u>	<u>556,126</u>	<u>158,109</u>	<u>17,402</u>	<u>140,707</u>
Net Investment in Capital Assets	1,354,074	1,345,141	8,933	3,357,279	3,669,120	(311,841)
Restricted	2,994,433	3,120,484	(126,051)	-	-	-
Unrestricted	<u>575,376</u>	<u>665,797</u>	<u>(90,421)</u>	<u>1,718,679</u>	<u>1,507,510</u>	<u>211,169</u>
Total Net Position	<u>\$ 4,923,883</u>	<u>\$ 5,131,422</u>	<u>\$ (207,539)</u>	<u>\$ 5,075,958</u>	<u>\$ 5,176,630</u>	<u>\$ (100,672)</u>

An additional portion of the City's net position (29.9 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position* (22.9 percent) may be used to meet the City's ongoing obligations to citizens and creditors.

Governmental Activities. Governmental activities decreased the City's net position by \$207,539 and Business-type activities decreased the City's net position by \$100,672. Key elements of these changes are as follows:

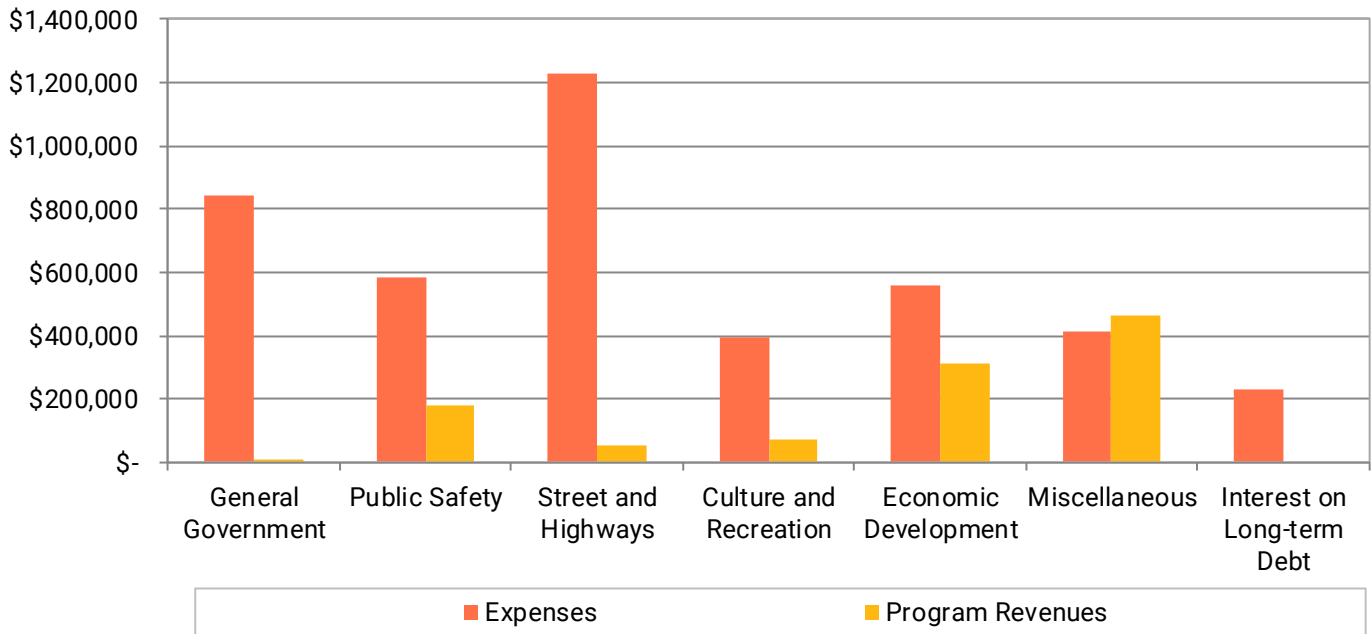
City of Tracy's Changes in Net Position

	Governmental Activities			Business-type Activities		
	2021	2020	Increase (Decrease)	2021	2020	Increase (Decrease)
Revenues						
Program Revenues						
Charges for services	\$ 216,144	\$ 188,912	\$ 27,232	\$ 3,682,355	\$ 3,333,204	\$ 349,151
Operating grants and contributions	397,119	379,229	17,890	423	88,487	(88,064)
Capital grants and contributions	463,724	1,006,960	(543,236)	619,599	1,249,829	(630,230)
General Revenues						
Property taxes/tax increments	1,239,768	1,223,187	16,581	-	-	-
Other taxes	24,422	26,828	(2,406)	-	-	-
Grants and contributions not restricted to specific programs	1,059,399	970,768	88,631	-	-	-
Unrestricted investment earnings	(6,119)	49,065	(55,184)	(5,391)	46,580	(51,971)
Gain on sale of fixed assets	3,500	29,581	(26,081)	-	-	-
Other	126,690	68,967	57,723	-	-	-
Total Revenues	3,524,647	3,943,497	(418,850)	4,296,986	4,718,100	(421,114)
Expenses						
General government	843,241	592,653	250,588	-	-	-
Public safety	585,291	669,555	(84,264)	-	-	-
Streets and highways	1,226,294	832,603	393,691	-	-	-
Culture and recreation	391,197	233,570	157,627	-	-	-
Economic development	557,690	940,003	(382,313)	-	-	-
Miscellaneous	412,372	514,681	(102,309)	-	-	-
Interest on long-term debt	229,511	252,679	(23,168)	-	-	-
Liquor store	-	-	-	822,774	856,108	(33,334)
Water utility	-	-	-	734,282	642,586	91,696
Utility surcharge	-	-	-	-	16,688	(16,688)
Sewer utility	-	-	-	759,048	793,704	(34,656)
Storm sewer	-	-	-	117,139	65,683	51,456
Public housing	-	-	-	152,251	156,330	(4,079)
Solid waste utility	-	-	-	147,950	140,772	7,178
Deputy register	-	-	-	1,150,804	1,079,584	71,220
Total Expenses	4,245,596	4,035,744	209,852	3,884,248	3,751,455	132,793
Increase (Decrease) in Net Assets Before Transfers	(720,949)	(92,247)	(628,702)	412,738	966,645	(553,907)
Transfers	513,410	(167,866)	681,276	(513,410)	167,866	(681,276)
Change in Net Position	(207,539)	(260,113)	52,574	(100,672)	1,134,511	(1,235,183)
Net Position - January 1	5,131,422	5,391,535	(260,113)	5,176,630	4,042,119	1,134,511
Net Position - December 31	\$ 4,923,883	\$ 5,131,422	\$ (207,539)	\$ 5,075,958	\$ 5,176,630	\$ (100,672)

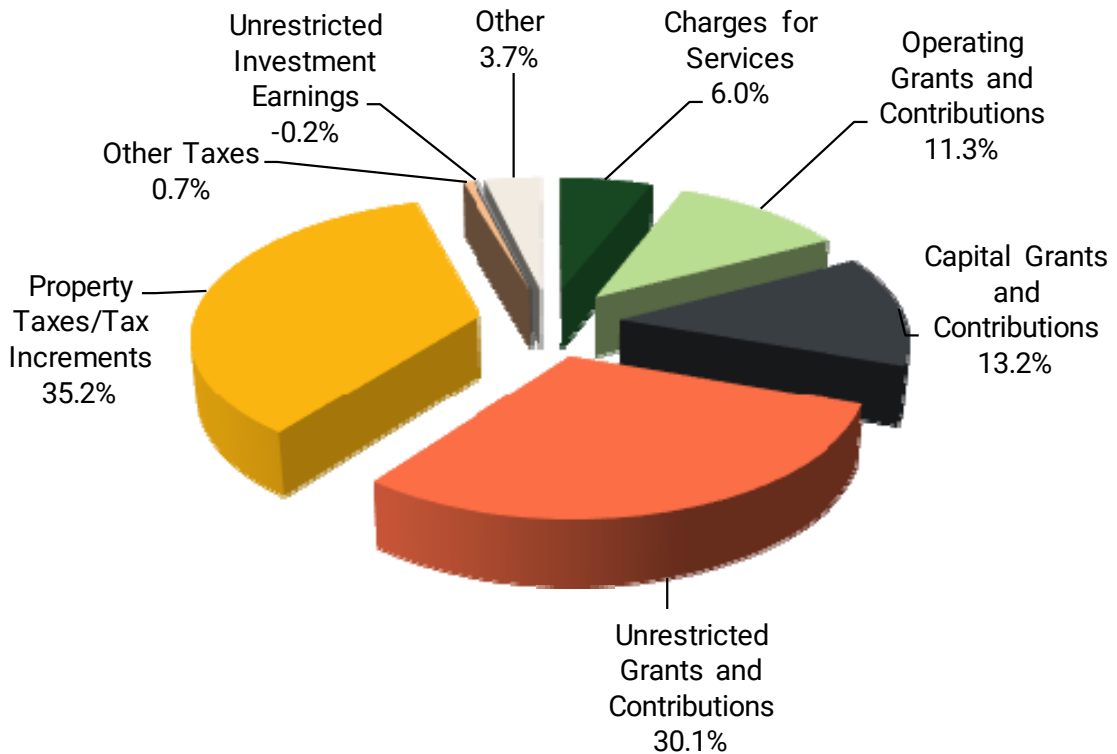
Property tax levies for 2021 increased 3.0 percent over 2020 levies.

The following graph depicts various governmental activities and shows the revenue and expenses directly related to those activities.

Expenses and Program Revenues - Governmental Activities

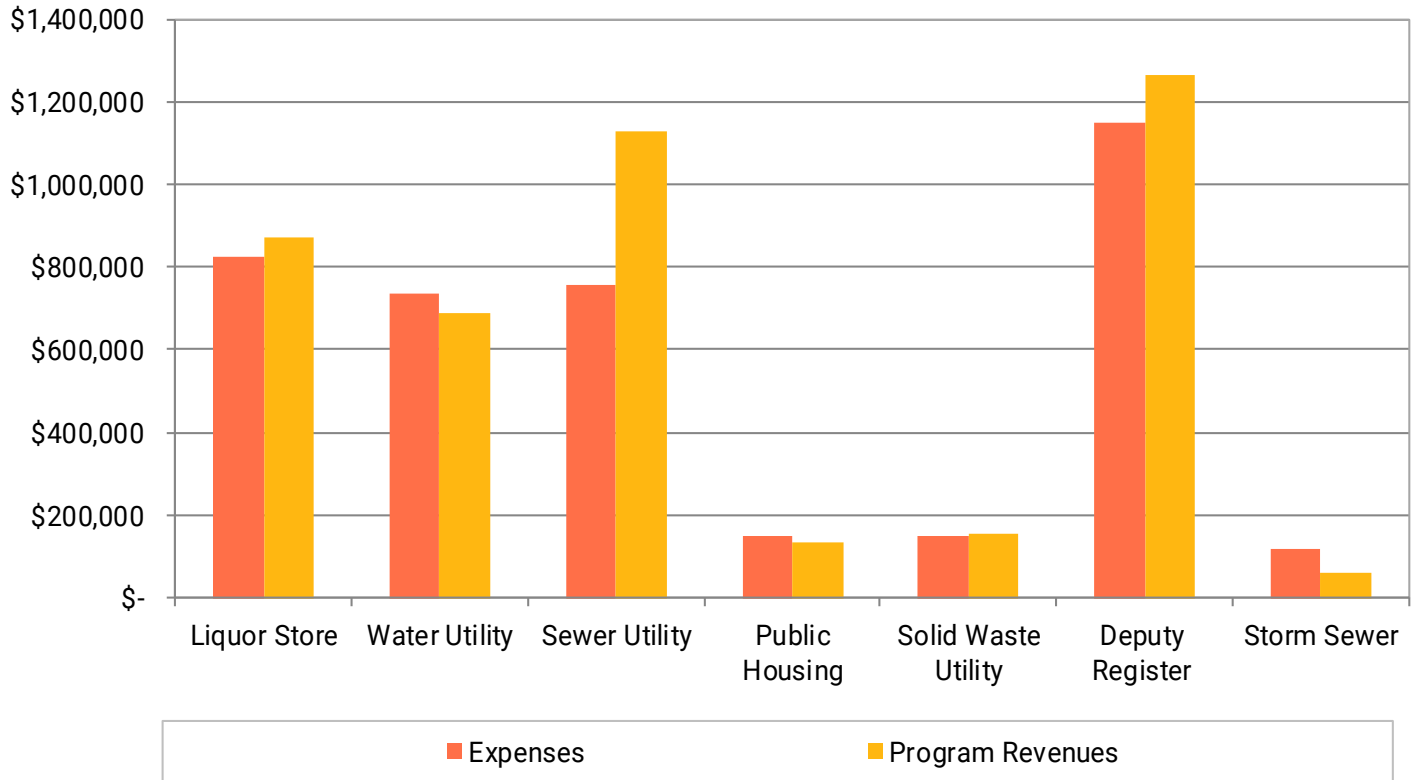


Revenues by Source - Governmental Activities

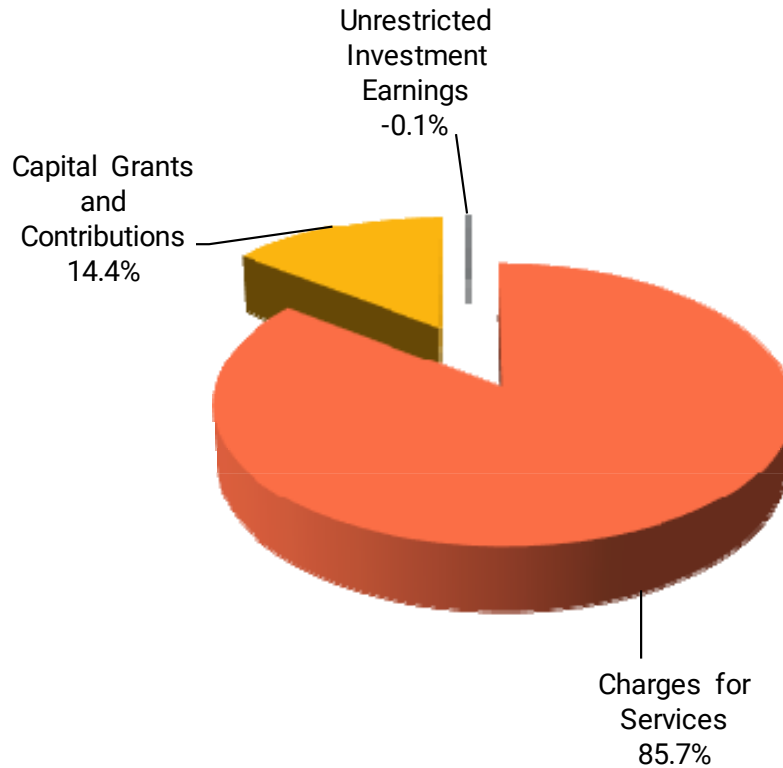


Business-type Activities. Business-type activities decreased the City's net position by \$100,672.

Expenses and Program Revenues - Business-type Activities



Revenues by Source - Business-type Activities



Financial Analysis of the City's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the close in the current fiscal year, the City's governmental funds reported combined ending fund balances of \$4,934,507, a decrease of \$1,463,902 in comparison with the prior year. Approximately 13.0 percent of the total amount, \$641,521, constitutes unassigned fund balance, which is available for spending at the City's discretion. The remainder of fund balance is not available for new spending because it is either 1) nonspendable (\$28,348) 2) restricted (\$3,741,591), 3) committed (\$135,047), or 4) assigned (\$388,000).

The General fund is the chief operating fund of the City. At the end of the current year, the fund balance of the General fund was \$667,923, of which \$641,521 was unassigned. As a measure of the General fund's liquidity, it may be useful to compare total fund balance to total fund expenditures. Total fund balance represents 25.6 percent of fund expenditures.

The fund balance of the City's General fund increased by \$14,297 during the current fiscal year. The key factors in this increase were:

- Street and highways were under budget by \$44,525.

Debt Service fund has a total fund balance of \$1,189,971, all of which is restricted for the payment of debt service. The net increase in fund balance during the current year in this fund was \$117,111 due to taxes and assessments received being greater than scheduled bond payments.

Wastewater Project Phase III fund has a total fund balance of \$1,640,487, all of which is restricted for Phase III expenditures. The net decrease in fund balance during the current year was \$1,304,464 due to project related expenses.

The Airport Improvement Fund has a total fund balance of \$29,861. The fund had project costs of \$417,091 offset up grant dollars and additional \$40,057 charges for services that resulted in a fund balance increase of \$34,419.

Proprietary Funds. The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of the enterprise funds at the end of the year was \$1,718,679. The total decrease in net position for the funds was \$100,672. The major factor of this decrease was the transfer out to the General fund due to project costs of \$357,798 from the Sewer fund.

General Fund Budgetary Highlights

The City's General fund budget was amended during the year. Revenues were under expectations by \$10,889, expenditures were under the budget by \$43,854 and transfers and extraordinary items were under expectations by \$41,476 in 2021. The City budgeted for a gain of \$1,030.

Capital Asset and Debt Administration

Capital Assets. The City's investment in capital assets for its governmental and business type activities as of December 31, 2021, amounts to \$29,722,612 (net of accumulated depreciation). This investment in capital assets includes land, structures, improvements, machinery and equipment, park facilities, roads, highways and bridges. The total increase in the City's investment in capital assets for the current fiscal year was 11.7 percent (a 10.8 percent increase for governmental activities and a 12.0 percent increase for business-type activities).

Major capital asset events during the current fiscal year included the following:

- Truck and Trailer purchases totaled \$24,000.
- Costs for Phase III of the wastewater project totaled \$4,366,372.

Additional information on the City's capital assets can be found in Note 3C starting on pages 63 of this report.

City of Tracy's Capital Assets (Net of Depreciation)

	Governmental Activities			Business-type Activities		
	2021	2020	Increase (Decrease)	2021	2020	Increase (Decrease)
Land	\$ 6,712	\$ 6,712	\$ -	\$ 84,191	\$ 84,191	\$ -
Construction in Progress	3,848,375	2,501,898	1,346,477	8,427,012	5,407,117	3,019,895
Buildings	343,981	365,874	(21,893)	1,255,582	1,344,774	(89,192)
Improvements Other Than Buildings	3,212,297	3,620,142	(407,845)	11,599,753	12,204,982	(605,229)
Equipment and Machinery	817,300	931,620	(114,320)	127,409	151,301	(23,892)
Total	\$ 8,228,665	\$ 7,426,246	\$ 802,419	\$ 21,493,947	\$ 19,192,365	\$ 2,301,582

Long-term Debt. At the end of the current fiscal year, the City had total bonded debt outstanding of \$27,955,000. While all of the City's bonds have revenue streams, they are all backed by the full faith and credit of the City.

City of Tracy's Outstanding Debt

	Governmental Activities			Business-type Activities		
	2021	2020	Increase (Decrease)	2021	2020	Increase (Decrease)
G.O. Special Assessment Bonds	\$ 1,985,000	\$ 2,200,000	\$ (215,000)	\$ 920,000	\$ 1,005,000	\$ (85,000)
G.O. Revenue Bonds	-	-	-	9,405,000	9,734,000	(329,000)
G.O. Bonds	6,275,000	6,513,000	(238,000)	975,000	1,110,000	(135,000)
G.O. Temporary Bonds	-	-	-	8,395,000	8,395,000	-
Total	\$ 8,260,000	\$ 8,713,000	\$ (453,000)	\$ 19,695,000	\$ 20,244,000	\$ (549,000)

The City's total debt decreased by \$1,002,000 (3.5 percent) during the current fiscal year due no bonds issued and scheduled payments being made.

Minnesota statutes limit the amount of net general obligation debt a City may issue to 3 percent of the market value of taxable property within the City. The current debt limitation for the City is \$1,743,161. The City currently has \$6,275,000 of general obligation debt subject to this limit.

Additional information on the City's long-term debt can be found in Note 3E starting on page 66 of this report.

Economic Factors and Next Year's Budgets and Rates

- The unemployment rate for Lyon County is currently 2.3 percent, which is lower than the prior year rate of 3.5. This compares favorably to the State's average unemployment rate of 3.0 percent and compares favorably to the national average rate of 3.9 percent.
- Property valuations within the City remain steady.
- Local Government Aid from the State of Minnesota will increase from \$963,905 in 2021 to \$970,456 in 2022, a 0.68 percent increase.

All of these factors were considered in preparing the City's budget for the 2022 fiscal year.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Administrator, City of Tracy, 336 Morgan Street, Tracy, MN 56175.

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF TRACY
TRACY, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2021

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City of Tracy, Minnesota
Statement of Net Position
December 31, 2021

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and temporary investments	\$ 4,973,920	\$ 3,185,482	\$ 8,159,402
Receivables			
Interest	3,437	10,153	13,590
Delinquent taxes	57,130	-	57,130
Accounts	48,039	136,956	184,995
Notes, net of allowance	175,450	-	175,450
Special assessments	1,002,690	413,887	1,416,577
Intergovernmental	138,210	162,435	300,645
Inventories	-	83,835	83,835
Prepaid items	28,348	4,295	32,643
Land held for resale	19,162	-	19,162
Net pension asset - Fire Relief	180,316	-	180,316
Capital assets			
Nondepreciable land and construction in progress	3,855,087	8,511,203	12,366,290
Depreciable assets (net of accumulated depreciation)	4,373,578	12,982,744	17,356,322
Total Assets	<u>14,855,367</u>	<u>25,490,990</u>	<u>40,346,357</u>
Deferred Outflows of Resources			
Deferred pension resources	<u>667,922</u>	<u>139,151</u>	<u>807,073</u>
Liabilities			
Accounts payable	374,579	230,796	605,375
Deposits payable	-	26,825	26,825
Due to other governments	1,655	6,001	7,656
Accrued salaries payable	69,838	15,292	85,130
Accrued interest payable	99,296	50,787	150,083
Unearned revenue	5,987	98,759	104,746
Noncurrent liabilities			
Due within one year			
Long-term liabilities	553,769	8,524,550	9,078,319
Due in more than one year			
Long-term liabilities	8,066,697	11,270,987	19,337,684
Net pension liability	549,549	172,077	721,626
Total Liabilities	<u>9,721,370</u>	<u>20,396,074</u>	<u>30,117,444</u>
Deferred Inflows of Resources			
Deferred pension resources	<u>878,036</u>	<u>158,109</u>	<u>1,036,145</u>
Net Position			
Net investment in capital assets	1,354,074	3,357,279	4,711,353
Restricted for			
Debt service	2,083,300	-	2,083,300
Economic development	175,450	-	175,450
Future capital improvements to the hospital facilities	730,683	-	730,683
Capital outlay	5,000	-	5,000
Unrestricted	<u>575,376</u>	<u>1,718,679</u>	<u>2,294,055</u>
Total Net Position	<u>\$ 4,923,883</u>	<u>\$ 5,075,958</u>	<u>\$ 9,999,841</u>

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

City of Tracy, Minnesota
Statement of Activities
For the Year Ended December 31, 2021

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities				
General government	\$ 843,241	\$ 1,084	\$ -	\$ -
Public safety	585,291	91,612	86,322	-
Streets and highways	1,226,294	1,628	-	52,271
Culture and recreation	391,197	69,463	-	-
Economic development	557,690	-	310,797	-
Miscellaneous	412,372	52,357	-	411,453
Interest on long-term debt	229,511	-	-	-
Total Governmental Activities	4,245,596	216,144	397,119	463,724
Business-type Activities				
Liquor store	822,774	872,204	97	-
Water utility	734,282	649,329	262	37,050
Sewer utility	759,048	550,482	64	577,821
Storm water	117,139	55,149	-	4,728
Solid waste utility	147,950	156,536	-	-
Deputy register	1,150,804	1,263,767	-	-
Public housing	152,251	134,888	-	-
Total Business-type Activities	3,884,248	3,682,355	423	619,599
Total	\$ 8,129,844	\$ 3,898,499	\$ 397,542	\$ 1,083,323

General Revenues

- Property taxes, levied for general purposes
- Property taxes, levied for debt service
- Franchise taxes
- Grants and contributions not restricted to specific programs
- Unrestricted investment earnings (loss)
- Other revenues
- Gain on sale of capital assets

Transfers

- Total General Revenues and Transfers

Change in Net Position

Net Position, January 1

Net Position, December 31

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

Net (Expenses) Revenues and
Changes in Net Position

Governmental Activities	Business-type Activities	Total
\$ (842,157)		\$ (842,157)
(407,357)		(407,357)
(1,172,395)		(1,172,395)
(321,734)		(321,734)
(246,893)		(246,893)
51,438		51,438
(229,511)		(229,511)
<u>(3,168,609)</u>		<u>(3,168,609)</u>
	49,527	49,527
	(47,641)	(47,641)
	369,319	369,319
	(57,262)	(57,262)
	8,586	8,586
	112,963	112,963
	<u>(17,363)</u>	<u>(17,363)</u>
	<u>418,129</u>	<u>418,129</u>
<u>(3,168,609)</u>	<u>418,129</u>	<u>(2,750,480)</u>
748,123	-	748,123
491,645	-	491,645
24,422	-	24,422
1,059,399	-	1,059,399
(6,119)	(5,391)	(11,510)
126,690	-	126,690
3,500	-	3,500
513,410	(513,410)	-
<u>2,961,070</u>	<u>(518,801)</u>	<u>2,442,269</u>
(207,539)	(100,672)	(308,211)
<u>5,131,422</u>	<u>5,176,630</u>	<u>10,308,052</u>
<u>\$ 4,923,883</u>	<u>\$ 5,075,958</u>	<u>\$ 9,999,841</u>

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

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FUND FINANCIAL STATEMENTS

CITY OF TRACY
TRACY, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2021

City of Tracy, Minnesota
Balance Sheet
Governmental Funds
December 31, 2021

	100	401		612	Other	Totals
	General	Debt Service	Phase III Street Project Ineligibles	Airport	Governmental Funds	
Assets						
Cash and temporary investments	\$ 724,721	\$ 1,188,181	\$ 1,761,955	\$ (83,374)	\$ 1,382,437	\$ 4,973,920
Receivables						
Interest	288	2,719	-	-	430	3,437
Delinquent taxes	57,130	-	-	-	-	57,130
Accounts	15,404	-	-	31,155	1,480	48,039
Notes, net of allowance	-	-	-	-	175,450	175,450
Special assessments	10,065	992,625	-	-	-	1,002,690
Intergovernmental	8,895	4,071	-	80,647	44,597	138,210
Prepaid items	26,402	-	-	1,946	-	28,348
Assets held for resale	-	-	-	-	19,162	19,162
Total Assets	\$ 842,905	\$ 2,187,596	\$ 1,761,955	\$ 30,374	\$ 1,623,556	\$ 6,446,386
Liabilities						
Accounts payable	\$ 33,174	\$ 5,000	\$ 121,468	\$ 384	\$ 214,553	\$ 374,579
Accrued salaries payable	66,971	-	-	129	2,738	69,838
Due to other governments	1,655	-	-	-	-	1,655
Unearned revenue	5,987	-	-	-	-	5,987
Total Liabilities	107,787	5,000	121,468	513	217,291	452,059
Deferred Inflows of Resources						
Unavailable revenue - property taxes	57,130	-	-	-	-	57,130
Unavailable revenue - special assessments	10,065	992,625	-	-	-	1,002,690
Total Deferred Inflows of Resources	67,195	992,625	-	-	-	1,059,820
Fund Balances						
Nonspendable for						
Prepaid items	26,402	-	-	1,946	-	28,348
Restricted for						
Economic development	-	-	-	-	175,450	175,450
Debt service	-	1,189,971	-	-	-	1,189,971
Future capital improvements to the hospital facilities	-	-	-	-	730,683	730,683
Capital outlay	-	-	1,640,487	-	5,000	1,645,487
Committed for						
Economic development	-	-	-	-	85,405	85,405
Library improvements	-	-	-	-	21,727	21,727
Airport	-	-	-	27,915	-	27,915
Assigned for						
Cemetery operations	-	-	-	-	121,388	121,388
Capital outlay	-	-	-	-	266,612	266,612
Unassigned	641,521	-	-	-	-	641,521
Total Fund Balances	667,923	1,189,971	1,640,487	29,861	1,406,265	4,934,507
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 842,905	\$ 2,187,596	\$ 1,761,955	\$ 30,374	\$ 1,623,556	\$ 6,446,386

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

City of Tracy, Minnesota
 Reconciliation of the Balance Sheet
 to the Statement of Net Position
 Governmental Funds
 December 31, 2021

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

Total Fund Balances - Governmental Funds	\$ 4,934,507
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the funds.	8,228,665
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds.	
Long-term liabilities at year-end consist of	
Bond premiums, net of amortization	(95,775)
Compensated absences	(105,388)
Net pension liability	(549,549)
Net pension asset	180,316
Bonds payable	(8,419,303)
Long-term assets are not available to pay current-period expenditures and, therefore, are reported as unavailable revenue in the funds.	
Delinquent property taxes receivable	57,130
Special assessments receivable	1,002,690
Governmental funds do not report long-term amounts related to pensions.	
Deferred outflows of pension resources	667,922
Deferred inflows of pension resources	(878,036)
Governmental funds do not report a liability for accrued interest until due and payable.	<u>(99,296)</u>
Total Net Position - Governmental Activities	<u><u>\$ 4,923,883</u></u>

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

City of Tracy, Minnesota
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2021

	100	401	612	Other Governmental Funds	Totals
	General	Debt Service	Phase III Street Project Ineligibles	Airport	
Revenues					
Taxes	\$ 740,458	\$ 491,645	\$ -	\$ -	\$ 1,274,103
Special assessments	5,702	169,055	-	-	174,757
Licenses and permits	23,227	-	-	-	23,227
Intergovernmental	1,113,897	-	-	411,453	1,824,457
Charges for services	232,658	-	-	40,057	285,015
Fines and forfeits	4,986	-	-	-	4,986
Investment earnings (loss)	(760)	(1,221)	(2,794)	-	10,673
Miscellaneous	8,476	-	-	-	52,450
Total Revenues	<u>2,128,644</u>	<u>659,479</u>	<u>(2,794)</u>	<u>451,510</u>	<u>3,649,668</u>
Expenditures					
Current					
General government	806,876	-	-	-	806,876
Public safety	553,319	-	-	1,695	555,014
Streets and highways	864,667	-	-	-	864,667
Culture and recreation	326,210	-	-	-	326,210
Economic development	7,379	-	-	550,151	557,530
Miscellaneous	-	-	-	858	858
Capital outlay					
Public safety	-	-	-	19,420	19,420
Streets and highways	-	-	1,148,151	-	1,166,306
Culture and recreation	4,566	-	-	12,382	16,948
Miscellaneous	-	-	-	417,091	571,524
Debt service					
Principal	49,240	453,000	-	-	502,240
Interest and other	-	89,368	153,519	-	242,887
Total Expenditures	<u>2,612,257</u>	<u>542,368</u>	<u>1,301,670</u>	<u>417,091</u>	<u>5,630,480</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(483,613)</u>	<u>117,111</u>	<u>(1,304,464)</u>	<u>34,419</u>	<u>(1,980,812)</u>
Other Financing Sources (Uses)					
Transfers in	497,910	-	-	15,500	513,410
Sale of capital assets	-	-	-	3,500	3,500
Total Other Financing Sources (Uses)	<u>497,910</u>	<u>-</u>	<u>-</u>	<u>19,000</u>	<u>516,910</u>
Net Change in Fund Balances	14,297	117,111	(1,304,464)	34,419	(325,265)
Fund Balances, January 1	<u>653,626</u>	<u>1,072,860</u>	<u>2,944,951</u>	<u>(4,558)</u>	<u>6,398,409</u>
Fund Balances, December 31	<u>\$ 667,923</u>	<u>\$ 1,189,971</u>	<u>\$ 1,640,487</u>	<u>\$ 29,861</u>	<u>\$ 4,934,507</u>

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

City of Tracy, Minnesota
 Reconciliation of the Statement of
 Revenues, Expenditures and Changes in Fund Balances
 to the Statement of Activities
 Governmental Funds
 For the Year Ended December 31, 2021

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

Net change in fund balances - governmental funds	\$ (1,463,902)
<p>Governmental funds report capital outlay as expenditures. However, in the statement of activities the cost of those assets is allocated over the estimated useful lives and reported as depreciation expense.</p>	
Capital outlay	1,370,717
Depreciation expense	(556,833)
<p>The net effect of various miscellaneous transactions involving capital assets.</p>	
Sale of capital assets	(11,465)
<p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.</p>	
Principal repayments	502,240
Premiums on bonds issued, net of amortization	8,738
<p>Interest on long-term debt in the statement of activities differs from the amount reported in the governmental fund because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.</p>	
	4,638
<p>Long-term pension activity is not reported in governmental funds.</p>	
Pension expense	83,558
Direct aid contribution	3,878
<p>Delinquent property taxes receivable will be collected this year, but is not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.</p>	
	(9,913)
<p>Certain revenues are recognized as soon as they are earned. Under the modified accrual basis of accounting certain revenues cannot be recognized until they are available to liquidate liabilities of the current period.</p>	
Special assessments	(122,486)
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p>	
Compensated absences	(16,709)
Change in Net Position - Governmental Activities	\$ (207,539)

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

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City of Tracy, Minnesota
Statement of Revenues, Expenditures and Changes in Fund Balances -
Budget and Actual
General Fund
For the Year Ended December 31, 2021

	General			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 753,973	\$ 753,973	\$ 740,458	\$ (13,515)
Special assessments	32,935	32,935	5,702	(27,233)
Licenses and permits	18,420	18,420	23,227	4,807
Intergovernmental	1,024,905	1,049,622	1,113,897	64,275
Charges for services	190,310	204,233	232,658	28,425
Fines and forfeits	8,043	8,043	4,986	(3,057)
Investment earnings (loss)	47,679	47,679	(760)	(48,439)
Miscellaneous	2,850	2,850	8,476	5,626
Total Revenues	<u>2,079,115</u>	<u>2,117,755</u>	<u>2,128,644</u>	<u>10,889</u>
Expenditures				
Current				
General government	821,334	825,586	806,876	18,710
Public safety	565,793	565,793	553,319	12,474
Streets and highways	924,784	909,192	864,667	44,525
Culture and recreation	252,053	276,025	326,210	(50,185)
Economic development	-	8,000	7,379	621
Capital outlay				
Culture and recreation	4,566	17,560	4,566	12,994
Debt Service				
Principal	53,955	53,955	49,240	4,715
Total Expenditures	<u>2,622,485</u>	<u>2,656,111</u>	<u>2,612,257</u>	<u>43,854</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(543,370)</u>	<u>(538,356)</u>	<u>(483,613)</u>	<u>54,743</u>
Other Financing Sources (Uses)				
Transfers in	152,789	148,835	497,910	349,075
Extraordinary items	390,551	390,551	-	(390,551)
Total Other Financing Sources (Uses)	<u>543,340</u>	<u>539,386</u>	<u>497,910</u>	<u>(41,476)</u>
Net Change in Fund Balances	(30)	1,030	14,297	13,267
Fund Balances, January 1	<u>653,626</u>	<u>653,626</u>	<u>653,626</u>	<u>-</u>
Fund Balances, December 31	<u>\$ 653,596</u>	<u>\$ 654,656</u>	<u>\$ 667,923</u>	<u>\$ 13,267</u>

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

City of Tracy, Minnesota
Statement of Net Position
Proprietary Funds
December 31, 2021

	Business-type Activities - Enterprise Funds		
	609	601	602
	Liquor Store	Water Utility	Sewer Utility
Assets			
Current Assets			
Cash and temporary investments	\$ 18,613	\$ 1,082,798	\$ 1,577,845
Receivables			
Interest	-	4,137	3,632
Accounts	-	64,187	52,922
Special assessments	-	105,764	150,501
Intergovernmental	-	297	162,009
Inventories	83,835	-	-
Prepaid items	1,502	1,527	1,266
Total Current Assets	<u>103,950</u>	<u>1,258,710</u>	<u>1,948,175</u>
Noncurrent Assets			
Special assessments receivable	-	38,657	16,729
Capital assets, at cost			
Land	26,920	11,898	10,200
Construction in Progress	-	2,800,844	4,059,424
Buildings	310,667	98,348	29,706
Improvements other than buildings	-	4,174,915	11,689,337
Machinery and equipment	119,033	1,118,236	85,774
Less accumulated depreciation	<u>(310,430)</u>	<u>(3,869,324)</u>	<u>(2,186,789)</u>
Total capital assets (net of accumulated depreciation)	<u>146,190</u>	<u>4,334,917</u>	<u>13,687,652</u>
Total Noncurrent Assets	<u>146,190</u>	<u>4,373,574</u>	<u>13,704,381</u>
Total Assets	<u>250,140</u>	<u>5,632,284</u>	<u>15,652,556</u>
Deferred Outflow of Resources			
Deferred pension resources	<u>31,769</u>	<u>86,164</u>	<u>21,218</u>
Liabilities			
Current Liabilities			
Accounts payable	16,874	74,859	93,942
Deposits payable	-	18,500	-
Due to other governments	4,566	323	-
Accrued salaries payable	5,058	8,165	2,069
Accrued interest payable	-	14,879	14,913
Unearned revenue	-	98,759	-
Bonds payable, current	-	3,465,000	3,045,000
Compensated absences payable, current	1,477	10,392	2,681
Total Current Liabilities	<u>27,975</u>	<u>3,690,877</u>	<u>3,158,605</u>
Noncurrent Liabilities			
Compensated absences payable, noncurrent	5,423	14,197	3,514
Bonds payable, noncurrent	-	1,024,407	8,787,458
Net pension liability	39,286	106,552	26,239
Total Noncurrent Liabilities	<u>44,709</u>	<u>1,145,156</u>	<u>8,817,211</u>
Total Liabilities	<u>72,684</u>	<u>4,836,033</u>	<u>11,975,816</u>
Deferred Inflows of Resources			
Deferred pension resources	<u>36,097</u>	<u>97,903</u>	<u>24,109</u>
Net Position			
Net investment in capital assets	146,190	565,294	2,441,247
Unrestricted	26,938	219,218	1,232,602
Total Net Position	<u>\$ 173,128</u>	<u>\$ 784,512</u>	<u>\$ 3,673,849</u>

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

Business-type Activities - Enterprise Funds

651	658	Other	Totals
Deputy Register	Storm Sewer	Enterprise Funds	
\$ -	\$ 245,715	\$ 260,511	\$ 3,185,482
-	2,321	63	10,153
-	5,582	14,265	136,956
-	94,661	-	350,926
-	129	-	162,435
-	-	-	83,835
-	-	-	4,295
-	348,408	274,839	3,934,082
-	7,575	-	62,961
-	-	35,173	84,191
-	1,566,744	-	8,427,012
-	-	2,562,473	3,001,194
-	617,135	53,404	16,534,791
22,340	-	165,915	1,511,298
(20,207)	(61,713)	(1,616,076)	(8,064,539)
2,133	2,122,166	1,200,889	21,493,947
2,133	2,129,741	1,200,889	21,556,908
2,133	2,478,149	1,475,728	25,490,990
-	-	-	139,151
8,696	25,758	10,667	230,796
-	-	8,325	26,825
-	-	1,112	6,001
-	-	-	15,292
-	5,745	15,250	50,787
-	-	-	98,759
-	1,970,000	30,000	8,510,000
-	-	-	14,550
8,696	2,001,503	65,354	8,953,010
-	-	-	23,134
-	444,700	991,288	11,247,853
-	-	-	172,077
-	444,700	991,288	11,443,064
8,696	2,446,203	1,056,642	20,396,074
-	-	-	158,109
2,133	22,814	179,601	3,357,279
(8,696)	9,132	239,485	1,718,679
<u>\$ (6,563)</u>	<u>\$ 31,946</u>	<u>\$ 419,086</u>	<u>\$ 5,075,958</u>

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

City of Tracy, Minnesota
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds
For the Year Ended December 31, 2021

	Business-type Activities - Enterprise Funds		
	609	601	602
	Liquor Store	Water Utility	Sewer Utility
Operating Revenues			
Sales	\$ 799,670	\$ -	\$ -
Cost of sales	(558,749)	-	-
Gross Profit	240,921	-	-
Charges for services	-	643,321	550,482
Pension revenue	97	262	64
Total Operating Revenues	<u>241,018</u>	<u>643,583</u>	<u>550,546</u>
Operating Expenses			
Personal services	118,375	302,258	68,035
Supplies	84,299	67,310	6,836
Other services and charges	36,427	49,722	23,211
Insurance	6,068	4,494	4,174
Utilities	7,919	37,369	1,834
Depreciation	10,937	187,925	407,564
Total Operating Expenses	<u>264,025</u>	<u>649,078</u>	<u>511,654</u>
Operating Income (Loss)	<u>(23,007)</u>	<u>(5,495)</u>	<u>38,892</u>
Nonoperating Revenues (Expenses)			
Other income	72,534	4,608	-
Investment earnings (loss)	(11)	(1,692)	(2,780)
Rental income	-	1,400	-
Amortization of bond premium	-	2,977	1,947
Interest and other expense	-	(88,181)	(249,341)
Total Nonoperating Revenues (Expenses)	<u>72,523</u>	<u>(80,888)</u>	<u>(250,174)</u>
Income (Loss) Before Transfers and Capital Contributions	49,516	(86,383)	(211,282)
Capital Contributions			
Special assessments	-	22,319	7,117
Federal grants	-	14,731	570,704
Transfers in	-	150,000	-
Transfers out	<u>(37,827)</u>	<u>-</u>	<u>(507,798)</u>
Change in Net Position	11,689	100,667	(141,259)
Net Position, January 1	<u>161,439</u>	<u>683,845</u>	<u>3,815,108</u>
Net Position, December 31	<u>\$ 173,128</u>	<u>\$ 784,512</u>	<u>\$ 3,673,849</u>

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

Business-type Activities
Enterprise Funds

<u>651</u>	<u>658</u>		
Deputy Register	Storm Sewer	Other Enterprise Funds	Total
\$ 1,263,767	\$ -	\$ -	\$ 2,063,437
-	-	-	(558,749)
<u>1,263,767</u>	<u>-</u>	<u>-</u>	<u>1,504,688</u>
-	55,149	291,424	1,540,376
-	-	-	423
<u>1,263,767</u>	<u>55,149</u>	<u>291,424</u>	<u>3,045,487</u>
(48,529)	-	165	440,304
1,194,346	2,345	1,912	1,357,048
4,632	50,368	169,569	333,929
-	-	-	14,736
-	-	2,690	49,812
355	20,571	90,961	718,313
<u>1,150,804</u>	<u>73,284</u>	<u>265,297</u>	<u>2,914,142</u>
<u>112,963</u>	<u>(18,135)</u>	<u>26,127</u>	<u>131,345</u>
-	-	-	77,142
-	(622)	(286)	(5,391)
-	-	-	1,400
-	-	2,204	7,128
-	(43,855)	(37,108)	(418,485)
<u>-</u>	<u>(44,477)</u>	<u>(35,190)</u>	<u>(338,206)</u>
112,963	(62,612)	(9,063)	(206,861)
-	4,728	-	34,164
-	-	-	585,435
-	-	-	150,000
<u>(72,285)</u>	<u>-</u>	<u>(45,500)</u>	<u>(663,410)</u>
40,678	(57,884)	(54,563)	(100,672)
<u>(47,241)</u>	<u>89,830</u>	<u>473,649</u>	<u>5,176,630</u>
<u>\$ (6,563)</u>	<u>\$ 31,946</u>	<u>\$ 419,086</u>	<u>\$ 5,075,958</u>

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

City of Tracy, Minnesota
Statement of Cash Flows (Continued on the Following Pages)
Proprietary Funds
For the Year Ended December 31, 2021

	Business-type Activities - Enterprise Funds		
	609	601	602
	<u>Liquor Store</u>	<u>Water Utility</u>	<u>Sewer Utility</u>
Cash Flows from Operating Activities			
Receipts from customers	\$ 799,670	\$ 761,964	\$ 580,655
Payments to suppliers and vendors	(668,430)	(155,283)	(35,415)
Payments to and on behalf of employees	(118,789)	(270,456)	(67,033)
Other receipts	72,534	6,008	-
Net Cash Provided (Used) by Operating Activities	<u>84,985</u>	<u>342,233</u>	<u>478,207</u>
Cash Flows from Noncapital Financing Activities			
Increase (decrease) in due to other funds	(28,534)	-	-
Transfers from other funds	-	150,000	-
Transfers to other funds	(37,827)	-	(507,798)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(66,361)</u>	<u>150,000</u>	<u>(507,798)</u>
Cash Flows from Capital and Related Financing Activities			
Acquisition of capital assets	-	(1,058,601)	(1,586,112)
Principal paid on bonds payable	-	(130,800)	(367,900)
Interest and fees paid on bonds payable	-	(103,381)	(432,741)
Intergovernmental contributions for capital assets	-	14,731	766,626
Payments received on special assessments	-	33,045	21,038
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>-</u>	<u>(1,245,006)</u>	<u>(1,599,089)</u>
Cash Flows from Investing Activities			
Net investment loss on cash and temporary investments	<u>(11)</u>	<u>(5,340)</u>	<u>(3,299)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	18,613	(758,113)	(1,631,979)
Cash and Cash Equivalents, January 1	<u>-</u>	<u>1,840,911</u>	<u>3,209,824</u>
Cash and Cash Equivalents, December 31	<u>\$ 18,613</u>	<u>\$ 1,082,798</u>	<u>\$ 1,577,845</u>

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

Business-type Activities - Enterprise Funds

<u>651</u>	<u>658</u>		
<u>Deputy Register</u>	<u>Storm Sewer</u>	<u>Other Enterprise Funds</u>	<u>Total</u>
\$ 1,263,767	\$ 49,567	\$ 302,318	\$ 3,757,941
(1,191,482)	(52,832)	(162,884)	(2,266,326)
-	-	(165)	(456,443)
-	-	-	78,542
<u>72,285</u>	<u>(3,265)</u>	<u>139,269</u>	<u>1,113,714</u>
-	-	-	(28,534)
-	-	-	150,000
<u>(72,285)</u>	<u>-</u>	<u>(45,500)</u>	<u>(663,410)</u>
<u>(72,285)</u>	<u>-</u>	<u>(45,500)</u>	<u>(541,944)</u>
-	(524,838)	-	(3,169,551)
-	(15,300)	(35,000)	(549,000)
-	(53,644)	(37,108)	(626,874)
-	-	-	781,357
-	11,581	-	65,664
<u>-</u>	<u>(582,201)</u>	<u>(72,108)</u>	<u>(3,498,404)</u>
<u>-</u>	<u>(2,943)</u>	<u>(349)</u>	<u>(11,942)</u>
-	(588,409)	21,312	(2,938,576)
-	834,124	239,199	6,124,058
<u>\$ -</u>	<u>\$ 245,715</u>	<u>\$ 260,511</u>	<u>\$ 3,185,482</u>

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

City of Tracy, Minnesota
Statement of Cash Flows
Proprietary Funds (Continued)
For the Year Ended December 31, 2021

	Business-type Activities - Enterprise Funds		
	609	601	602
	Liquor Store	Water Utility	Sewer Utility
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities			
Operating income (loss)	\$ (23,007)	\$ (5,495)	\$ 38,892
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities			
Other income related to operations	72,534	6,008	-
Depreciation	10,937	187,925	407,564
(Increase) decrease in assets			
Accounts receivable	-	19,757	30,173
Due from other governments	-	127	-
Inventories	14,368	-	-
Prepaid items	(7)	(447)	(575)
(Increase) decrease in deferred outflows of resources			
Deferred pension resources	(23,379)	(69,558)	(16,531)
Increase (decrease) in liabilities			
Accounts payable	11,099	5,479	1,215
Due to other governments	(428)	323	-
Due to other funds	-	-	-
Deposits payable	-	(1,743)	-
Accrued salaries payable	2,096	1,218	313
Unearned revenue	-	98,759	-
Compensated absences payable	1,666	6,808	(1,755)
Net pension liability	(13,090)	2,890	(3,019)
Increase (decrease) in deferred inflows of resources			
Deferred pension resources	32,196	90,182	21,930
 Net Cash Provided (Used) by Operating Activities	 <u>\$ 84,985</u>	 <u>\$ 342,233</u>	 <u>\$ 478,207</u>
 Noncash Investing, Capital and Financing Activities			
Capital Assets Acquired on Account	<u>\$ -</u>	<u>\$ 63,821</u>	<u>\$ 92,234</u>
Amortization of Bond (Premium) Discount	<u>\$ -</u>	<u>\$ (2,977)</u>	<u>\$ (1,947)</u>

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

Business-type Activities - Enterprise Funds			
<u>651</u>	<u>658</u>		
<u>Deputy Register</u>	<u>Storm Sewer</u>	<u>Other Enterprise Funds</u>	<u>Total</u>
\$ 112,963	\$ (18,135)	\$ 26,127	\$ 131,345
-	-	-	78,542
355	20,571	90,961	718,313
-	(5,582)	10,894	55,242
-	-	-	127
-	-	-	14,368
-	-	-	(1,029)
7,745	-	-	(101,723)
7,496	(119)	10,467	35,637
-	-	1,112	1,007
-	-	(292)	(292)
-	-	-	(1,743)
-	-	-	3,627
-	-	-	98,759
(4,326)	-	-	2,393
(48,347)	-	-	(61,566)
<u>(3,601)</u>	<u>-</u>	<u>-</u>	<u>140,707</u>
<u>\$ 72,285</u>	<u>\$ (3,265)</u>	<u>\$ 139,269</u>	<u>\$ 1,113,714</u>
<u>\$ -</u>	<u>\$ 25,740</u>	<u>\$ -</u>	<u>\$ 181,795</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ (2,204)</u>	<u>\$ (7,128)</u>

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

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City of Tracy, Minnesota
Notes to the Financial Statements
December 31, 2021

Note 1: Summary of Significant Accounting Policies

A. Reporting Entity

The City of Tracy (the City) is a municipal corporation, incorporated under the laws of the State of Minnesota, and governed under a charter adopted in 1886. The City was formed and operated pursuant to applicable Minnesota laws and statutes. The City is governed by an elected Mayor and a seven-member Council. The Council exercises legislative authority and determines all matters of policy. The 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. Blended component units, although legally separate entities are, in substance, part of the City's operations and so data from these units are combined with data of the primary government.

Blended Component Unit. The Tracy Economic Development Authority (EDA) was established under Minnesota statutes, 469.090 through 469.108 for the purpose of promoting economic development within the City. The EDA has a December 31 year-end and is reported as a major special revenue fund. Separate financial statements are not issued for the EDA. The EDA is considered blended because the City has significant influence on the EDA activities, the governing body of the EDA consists of a five-member board with two council members and five appointed by the City Council, there is a financial benefit or burden relationship between the EDA and the City and the EDA provides benefits exclusively to the City.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

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.

City of Tracy, Minnesota
Notes to the Financial Statements
December 31, 2021

Note 1: Summary of Significant Accounting Policies (Continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

The Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

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

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, grants, entitlement and donations. On an accrual basis, revenue from property taxes is recognized in the year for which the tax is levied. 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. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are also recorded as unearned revenue.

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

City of Tracy, Minnesota
Notes to the Financial Statements
December 31, 2021

Note 1: Summary of Significant Accounting Policies (Continued)

The City reports the following major governmental funds:

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

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

The *Phase III Street Project Ineligibles fund* accounts for the funding sources and capital costs associated with the Wastewater Project Phase III.

The *Airport Improvement fund* accounts for the operation, maintenance and improvements of the Airport associated within the City.

The City reports the following major proprietary funds:

The *Water Utility fund* accounts for costs associated with the City's water system and ensure that user charges are sufficient to pay for those costs.

The *Sewer Utility fund* accounts for the costs associated with the City's sewer system and ensure that user charges are sufficient to pay for those costs.

The *Deputy Register and License fund* accounts for the collections and costs associated with various state wide licensing.

The *Storm Water fund* accounts for costs associated with the City's storm water system and ensure that user charges are sufficient to pay for those costs.

The *Liquor Store fund* accounts for the City's Liquor store receipts and disbursements.

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

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's 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. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

City of Tracy, Minnesota
Notes to the Financial Statements
December 31, 2021

Note 1: Summary of Significant Accounting Policies (Continued)

D. 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 statements of cash flows.

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.

Broker money market funds operate in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the shares.

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The City's recurring fair value measurements are listed in detail on page 61 and are valued using quoted market prices (Level 1 inputs).

City of Tracy, Minnesota
Notes to the Financial Statements
December 31, 2021

Note 1: Summary of Significant Accounting Policies (Continued)

The City has the following recurring fair value measurements as of December 31, 2021:

- Broker certificate of deposits of \$3,549,285 are valued using quoted market prices (Level 1 inputs)

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 Council annually adopts a tax levy and certifies it to the County in December for collection 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, June and November each year.

Delinquent taxes receivable include the past six years' uncollected taxes. Delinquent taxes have been offset by a deferred inflow of resources for delinquent taxes not received within 60 days after year end in the fund financial statements.

Accounts Receivable

Accounts receivable include amounts billed for services provided before year end. Unbilled utility enterprise fund receivables are also included for services provided in 2021. The City annually certifies delinquent utility 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. These assessments are recorded as receivables upon certification to the County. Special assessments are recognized as revenue when they are annually certified to the County or received in cash or within 60 days after year end. All governmental special assessments receivable are offset by a deferred inflow of resources in the governmental fund financial statements.

Interfund Receivables and Payables

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

Advances between funds, as reported in the fund financial statements, are offset by a nonspendable fund balance account in the General fund or a restricted, committed or assigned account in applicable governmental funds to indicate the constraint on these resources.

City of Tracy, Minnesota
Notes to the Financial Statements
December 31, 2021

Note 1: Summary of Significant Accounting Policies (Continued)

Inventories and Prepaid Items

All inventories are stated at the lower of cost or market on the first-in, first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial estimated useful life in excess of one year. The City reports infrastructure assets on a network and subsystem basis. Accordingly, the amounts spent for the construction or acquisition of infrastructure assets are capitalized and reported in the government-wide financial statements.

In the case of initial capitalization of general infrastructure assets (i.e., those reported by governmental activities) the City chose not to record any assets acquired prior to December 31, 2003. As the City constructs or acquires capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations the City values these capital assets at the acquisition value of the item at the date of its donation.

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.

Major outlays for capital assets and improvement are capitalized as projects are constructed.

For financial statement purposes only, a capitalization threshold is established for each capital asset category as follows:

Land Improvements	\$	10,000
Other Improvements		25,000
Buildings and Improvements		25,000
Infrastructure		100,000
Machinery and Equipment		5,000
Vehicles		5,000
Other Assets		5,000

Property, plant and equipment are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Infrastructure	15 - 50
Buildings	10 - 40
Machinery and Equipment	5 - 15
Other Improvements	15 - 20

City of Tracy, Minnesota
Notes to the Financial Statements
December 31, 2021

Note 1: Summary of Significant Accounting Policies (Continued)

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 statements of net position. This item results from actuarial calculations and current year pension contributions made subsequent to the measurement date.

Compensated Absences

It is the government's policy to permit employees to accumulate earned but unused vacation, comp time and sick pay benefits. All vacation and comp time pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. Sick time is only paid out upon death, retirement or voluntary termination after the employee has completed 5 continuous years of service with the City and the employee receives 40 percent of the accumulated sick leave. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. The total amount of compensated absences accrued for 2021 was \$143,072. The General fund is typically used to liquidate governmental compensated absences payable.

Pensions

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

The total pension expense for the General Employee Plan (GERP), Police and Fire Plan (PEFPF), and Tracy Fire Relief Association is as follows:

	Public Employees Retirement Association of Minnesota (PERA)		Fire Relief Association	Total All Plans
	GERP	PEFPF		
Pension Expense	\$ 48,335	\$ (8,493)	\$ 45,789	\$ 85,631

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 government has only one type of item, which arises only under a modified accrual basis of accounting that qualifies as needing to be reported in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources: property taxes and special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

The City has an additional item which qualifies for reporting in this category. The item, deferred pension resources, is reported only in the statements of net position and results from actuarial calculations.

City of Tracy, Minnesota
Notes to the Financial Statements
December 31, 2021

Note 1: Summary of Significant Accounting Policies (Continued)

Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. 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 fund types recognized bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

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 (the Council), which is the City's highest level of decision-making authority. Committed amounts cannot be used for any other purpose unless the 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 Council itself or by an official to which the governing body delegates the authority.

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 expenditures are made.

The City has formally adopted a fund balance policy for the General fund. The City's guideline is to maintain a minimum unassigned fund balance of 35-50 percent of budgeted operating expenditures for cash-flow timing needs.

City of Tracy, Minnesota
Notes to the Financial Statements
December 31, 2021

Note 1: Summary of Significant Accounting Policies (Continued)

Net Position

Net position represents the difference between assets and liabilities. 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 balances 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 balances 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.

Note 2: Stewardship, Compliance and Accountability

A. Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United State of America for the General fund. The City does not use encumbrance accounting.

The budget cycle starts in May with a Department Head kick off meeting followed by a Council study session in June. In July, Department Heads submit their requests for appropriations to the Finance Director. Budget estimates are presented to the City Council in August and the preliminary budget and tax levy are adopted in September. A public hearing is held in December and the council adopts the final budget and tax levy.

The appropriated budget is prepared by fund, function, and department. Line item transfers under \$5,000 may be authorized by the City Administrator. Budget adjustments over \$5,000 require City Council approval. The legal level of budgetary control is the department level. Budgeted amounts are as originally adopted, or as amended by the Council. There were budget amendments made during the year.

B. Excess of Expenditures Over Appropriations

For the year ended December 31, 2021 expenditures exceeded appropriations in the following funds:

Fund	Budget	Actual	Excess of Expenditures Over Appropriations
Special Revenue CDBG	\$ 423,000	\$ 425,465	\$ 2,465

The excess expenditures were funded by available fund balance.

City of Tracy, Minnesota
Notes to the Financial Statements
December 31, 2021

Note 2: Stewardship, Compliance and Accountability (Continued)

C. Deficit Fund Equity

The following funds had fund equity deficits at December 31, 2021:

Fund	Amount
Major Business-type Deputy Registrar	\$ 6,563

The above deficit will be eliminated through future revenues.

Note 3: Detailed Notes on all Funds

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 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 fair value of collateral pledged must equal 110 percent of the deposits not covered by insurance, bonds, or irrevocable standby letters of credit from Federal Home Loan Banks.

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 rate "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;
- 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 government entity.

At year end, the City's carrying amount of deposits was \$2,021,231 and the bank balance was \$2,283,690. Of the bank balance, \$250,000 was covered by federal depository insurance. The remaining balance was collateralized with securities held by the pledging financial institution's trust department in the City's name.

City of Tracy, Minnesota
Notes to the Financial Statements
December 31, 2021

Note 3: Detailed Notes on all Funds (Continued)

Investments

As of December 31, 2021 the City had the following investments that are insured or registered, or securities held by the City or its agent in the City's name.

Types of Investments	Credit Quality/ Ratings (1)	Segmented Time Distribution (2)	Amount	Fair Value Measurement Using Level 1
Pooled Investments at Amortized Costs				
Minnesota Municipal Money				
Market (4M) fund	N/A	less than 1 year	\$ 20,575	
Broker Money Market	N/A	less than 1 year	2,567,311	
Non-pooled Investments at Fair Value				
Broker Certificates of Deposits	NA	less than 1 year	2,342,525	\$ 2,342,525
Broker Certificates of Deposits	N/A	1 to 5 years	1,206,760	1,206,760
Total Investments			<u>\$ 6,137,171</u>	<u>\$ 3,549,285</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.
- *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.* The 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.* The interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

The City has not adopted a formal investment policy outlining objectives and procedures for investing idle funds or that addresses interest rate and credit risk.

Cash on Hand

Cash in the possession of the City, consisting of petty cash and change funds, totals \$1,000.

City of Tracy, Minnesota
Notes to the Financial Statements
December 31, 2021

Note 3: Detailed Notes on all Funds (Continued)

Cash and Investments Summary

A reconciliation of cash and investments as shown on the statement of net position for the City follows:

Deposits	\$ 2,021,231
Investments	6,137,171
Cash on Hand	<u>1,000</u>
 Total Cash and Temporary Investments	 <u><u>\$ 8,159,402</u></u>

B. Notes Receivable

The Economic Development Authority of the City has established an Economic Development Fund, to provide loans to assist businesses to expand or locate within the City. The loans will be paid back to the City at various monthly payments with interest that ranges from 1.625 to 5 percent on all unpaid balances. The balance on these loans as of December 31, 2021, is \$110,804.

Notes receivable have also been recorded for Community Development Block Grants that are being paid back to the City. These Grants were disbursed from an outside agency with the payments to be made to the City. The interest rates on these loans are 1 percent. The City will use these funds for additional loans in the future. The loans have been collateralized and call for periodic payments of principle and interest. A number of these loans are made to eligible homeowners to assist with home purchases and improvements. The City will collect these loans if there is an ownership change of the improved property. If the homeowners do not sell their property over an eight to ten year period the loans are forgiven. There is an allowance for these loans in the amount of \$595,208. The balance of these loans as of December 31, 2021, is \$659,854.

City of Tracy, Minnesota
Notes to the Financial Statements
December 31, 2021

Note 3: Detailed Notes on all Funds (Continued)

C. Capital Assets

Capital asset activity for the City for the year ended December 31, 2021 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital assets not being depreciated				
Land	\$ 6,712	\$ -	\$ -	\$ 6,712
Construction in progress	2,501,898	1,346,477	-	3,848,375
Total Capital Assets not being Depreciated	<u>2,508,610</u>	<u>1,346,477</u>	<u>-</u>	<u>3,855,087</u>
Capital assets being depreciated				
Buildings	2,819,742	-	-	2,819,742
Systems and infrastructure	9,282,052	-	(5,230)	9,276,822
Equipment and machinery	3,148,201	24,240	(506,665)	2,665,776
Total Capital Assets being Depreciated	<u>15,249,995</u>	<u>24,240</u>	<u>(511,895)</u>	<u>14,762,340</u>
Less accumulated depreciation for				
Buildings	(2,453,868)	(21,893)	-	(2,475,761)
Systems and infrastructure	(5,661,910)	(407,845)	5,230	(6,064,525)
Equipment and machinery	(2,216,581)	(127,095)	495,200	(1,848,476)
Total Accumulated Depreciation	<u>(10,332,359)</u>	<u>(556,833)</u>	<u>500,430</u>	<u>(10,388,762)</u>
Total Capital Assets being Depreciated, Net	<u>4,917,636</u>	<u>(532,593)</u>	<u>(11,465)</u>	<u>4,373,578</u>
Governmental Activities Capital Assets, Net	<u>\$ 7,426,246</u>	<u>\$ 813,884</u>	<u>\$ (11,465)</u>	<u>\$ 8,228,665</u>

City of Tracy, Minnesota
Notes to the Financial Statements
December 31, 2021

Note 3: Detailed Notes on all Funds (Continued)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type Activities				
Capital assets not being depreciated				
Land	\$ 84,191	\$ -	\$ -	\$ 84,191
Construction in progress	<u>5,407,117</u>	<u>3,019,895</u>	-	<u>8,427,012</u>
Total Capital Assets not being Depreciated	<u>5,491,308</u>	<u>3,019,895</u>	-	<u>8,511,203</u>
Capital assets being depreciated				
Buildings	3,001,194	-	-	3,001,194
Improvements other than buildings	16,534,791	-	-	16,534,791
Equipment and machinery	<u>1,579,221</u>	-	<u>(67,923)</u>	<u>1,511,298</u>
Total Capital Assets being Depreciated	<u>21,115,206</u>	-	<u>(67,923)</u>	<u>21,047,283</u>
Less accumulated depreciation for				
Buildings and improvements	(1,656,420)	(89,192)	-	(1,745,612)
Improvements other than buildings	(4,329,809)	(605,229)	-	(4,935,038)
Equipment and machinery	<u>(1,427,920)</u>	<u>(23,892)</u>	<u>67,923</u>	<u>(1,383,889)</u>
Total Accumulated Depreciation	<u>(7,414,149)</u>	<u>(718,313)</u>	<u>67,923</u>	<u>(8,064,539)</u>
Total Capital Assets being Depreciated, Net	<u>13,701,057</u>	<u>(718,313)</u>	-	<u>12,982,744</u>
Business-type Activities Capital Assets, Net	<u>\$ 19,192,365</u>	<u>\$ 2,301,582</u>	<u>\$ -</u>	<u>\$ 21,493,947</u>

City of Tracy, Minnesota
Notes to the Financial Statements
December 31, 2021

Note 3: Detailed Notes on all Funds (Continued)

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

Governmental Activities

General government	\$ 34,118
Public safety	95,465
Streets and highways	342,926
Culture and recreation	42,324
Miscellaneous	42,000
	<u>42,000</u>

Total Depreciation Expense - Governmental Activities	<u><u>\$ 556,833</u></u>
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Business-type Activities

Liquor Store	\$ 10,937
Water Utility	187,925
Sewer Utility	407,564
Storm Sewer	20,571
Deputy Register	355
Other enterprise funds	90,961
	<u>90,961</u>

Total Depreciation Expense - Business-type Activities	<u><u>\$ 718,313</u></u>
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Construction Commitment

The City has an active construction project as of December 31, 2021. At year end the City's commitments are as follows:

Project	Spent-to-Date	Remaining Commitment
Phase III - Infrastructure Improvements	<u>\$ 3,531,391</u>	<u>\$ 2,258,408</u>

D. Interfund Receivables, Payables and Transfers

Interfund Transfers

Fund	Transfers In			
	General Fund	Nonmajor Governmental Funds	Water	Total
Transfer Out				
Business-type				
Liquor Store	\$ 37,827	\$ -	\$ -	\$ 37,827
Sewer Utility	357,798	-	150,000	507,798
Deputy Register	72,285	-	-	72,285
Nonmajor enterprise	30,000	15,500	-	45,500
Total	<u>\$ 497,910</u>	<u>\$ 15,500</u>	<u>\$ 150,000</u>	<u>\$ 663,410</u>

City of Tracy, Minnesota
Notes to the Financial Statements
December 31, 2021

Note 3: Detailed Notes on all Funds (Continued)

Interfund transfers were made for the following purposes:

- Transfer from the Liquor fund to the General fund of \$37,827, to transfer profits from the liquor store.
- Transfer from the Deputy Register fund to General fund of \$72,285, to transfer profits from licensing.
- Transfer from Public Housing fund to the EDA fund of \$15,500, for administration costs.
- Transfer from the Sewer fund to the General fund of \$357,798, for costs related to the Street Maintenance Project.
- Transfer from the Sewer fund to the Water fund of \$150,000, for Rate Buydown.
- Transfer from Solid Waste fund to the General fund of \$30,000, for administration costs.

E. Long-term Debt

General Obligation Bonds

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. These bonds are reported in the proprietary funds if they are expected to be repaid from proprietary fund revenues. In addition, general obligation bonds have been issued to refund special assessments related bonds.

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
G.O. Refunding Bond of 2016B	\$ 1,120,000	2.00 %	02/25/16	02/01/22	\$ 110,000
Housing Development Refunding Bond of 2016A	1,140,000	2.00 - 4.00	04/01/16	02/01/42	975,000
G.O Bonds of 2016D	530,000	1.35 - 2.75	12/06/16	02/01/32	400,000
G.O Bonds of 2019B	5,365,000	2.00 - 3.13	05/15/19	02/01/42	5,365,000
G.O Bonds of 2019E	572,000	2.15	10/30/19	02/01/25	<u>400,000</u>
 Total G.O. Bonds					 <u>\$ 7,250,000</u>

City of Tracy, Minnesota
Notes to the Financial Statements
December 31, 2021

Note 3: Detailed Notes on all Funds (Continued)

Annual requirement to maturity for general obligation are as follows:

Year Ending December 31,	G.O. Bonds Governmental Activities			G.O. Bonds Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2022	\$ 242,000	\$ 168,451	\$ 410,451	\$ 30,000	\$ 36,150	\$ 66,150
2023	361,000	162,273	523,273	30,000	35,250	65,250
2024	364,000	154,873	518,873	35,000	34,275	69,275
2025	373,000	147,351	520,351	35,000	33,225	68,225
2026	275,000	140,706	415,706	35,000	32,175	67,175
2027 - 2031	1,480,000	594,106	2,074,106	200,000	142,025	342,025
2032 - 2036	1,530,000	369,069	1,899,069	250,000	97,800	347,800
2037 - 2041	1,370,000	147,453	1,517,453	295,000	42,900	337,900
2042	280,000	4,375	284,375	65,000	1,300	66,300
Total	<u>\$ 6,275,000</u>	<u>\$ 1,888,657</u>	<u>\$ 8,163,657</u>	<u>\$ 975,000</u>	<u>\$ 455,100</u>	<u>\$ 1,430,100</u>

General Obligation Special Assessment (Improvement) Bonds

The following bonds were issued to finance various improvements and will be repaid primarily from special assessments levied on the properties benefiting from the improvements. Some issues, however, are partly financed by ad valorem tax levies. All special assessment debt is backed by the full faith and credit of the City. General obligation bonds currently outstanding are as follows:

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
G.O. Improvement Bonds of 2014A	\$ 2,400,000	2.00 - 3.10 %	12/04/14	02/01/31	\$ 1,695,000
G.O. Improvement Refunding Bonds of 2015A	1,895,000	2.00 - 3.00	04/16/15	02/01/28	<u>1,210,000</u>
Total General Obligation Special Assessment (Improvement) Bonds					<u>\$ 2,905,000</u>

Annual requirement to maturity for general obligation special assessment (improvement) bonds are is as follows:

Year Ending December 31,	G.O. Special Assessment Bonds Governmental Activities			G.O. Special Assessment Bonds Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2022	\$ 210,000	\$ 54,910	\$ 264,910	\$ 85,000	\$ 25,620	\$ 110,620
2023	235,000	49,575	284,575	95,000	23,530	118,530
2024	230,000	42,980	272,980	95,000	20,920	115,920
2025	240,000	35,930	275,930	100,000	17,995	117,995
2026	240,000	28,730	268,730	110,000	14,848	124,848
2027 - 2031	830,000	51,470	881,470	435,000	29,908	464,908
Total	<u>\$ 1,985,000</u>	<u>\$ 263,595</u>	<u>\$ 2,248,595</u>	<u>\$ 920,000</u>	<u>\$ 132,821</u>	<u>\$ 1,052,821</u>

City of Tracy, Minnesota
Notes to the Financial Statements
December 31, 2021

Note 3: Detailed Notes on all Funds (Continued)

General Obligation Revenue Bonds

The following bonds were issued to finance capital improvements to the enterprise funds. They will be retired from net revenue of the enterprise funds.

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
G.O. Utility Revenue Refunding Bond 2019C	\$ 2,663,000	2.13 %	09/13/19	01/01/59	\$ 2,573,000
G.O. Utility Revenue Refunding Bond 2019D	7,071,000	2.13	09/13/19	01/01/59	<u>6,832,000</u>
Total G.O. Revenue Bonds					<u>\$ 9,405,000</u>

The annual debt service requirements to maturity for general obligation revenue bonds are as follows:

Year Ending December 31,	G.O. Revenue Bonds		
	Business-type Activities		
	Principal	Interest	Total
2022	\$ -	\$ -	\$ -
2023	170,000	200,041	370,041
2024	173,000	196,306	369,306
2025	177,000	192,686	369,686
2026	181,000	188,859	369,859
2027 - 2031	965,000	885,189	1,850,189
2032 - 2036	1,069,000	778,353	1,847,353
2037 - 2041	1,188,000	659,595	1,847,595
2042 - 2046	1,322,000	527,742	1,849,742
2047 - 2051	1,466,000	381,178	1,847,178
2052 - 2056	1,631,000	218,369	1,849,369
2057 - 2059	<u>1,063,000</u>	<u>45,563</u>	<u>1,108,563</u>
Total	<u>\$ 9,405,000</u>	<u>\$ 4,273,881</u>	<u>\$ 13,678,881</u>

General Obligation Temporary Bonds

The following bonds were issued to finance capital improvements to the enterprise funds. They will be retired from a USDA loan in 2022.

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
G.O. Temporary Bonds of 2019A	\$ 8,395,000	1.75 %	05/15/19	05/01/22	<u>\$ 8,395,000</u>

City of Tracy, Minnesota
Notes to the Financial Statements
December 31, 2021

Note 3: Detailed Notes on all Funds (Continued)

The annual debt service requirements to maturity for loans payable are as follows:

Year Ending December 31,	G.O. Temporary Bonds Business-type Activities		
	Principal	Interest	Total
2022	\$ 8,395,000	\$ 73,456	\$ 8,468,456

Annual revenues from charges for services, principal and interest payments, and percentage of revenue required to cover principal and interest payments are as follows:

	Water	Sewer	Storm Water	Nonmajor Enterprise
Revenues	\$ 643,321	\$ 550,482	\$ 55,149	\$ 134,888
Principal and Interest	234,181	800,641	68,944	72,108
Percentage of Revenues	36.4%	145.4%	125.0%	53.5%

DEED Loan Payable

The following DEED loan payable was issued to demolition the abandoned Masonic Temple building so that the land can be used for future development.

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
DEED Loan	\$ 61,044	2.00 %	12/15/17	02/15/32	\$ 56,348
League of MN Cities Loan	250,000	0.00 - 3.00	08/01/18	08/01/23	102,955
Total Notes					\$ 159,303

The annual debt service requirements to maturity for the DEED loan payable are as follows:

Year Ending December 31,	Notes Payable Governmental Activities		
	Principal	Interest	Total
2022	\$ 60,107	\$ 5,718	\$ 65,825
2023	56,934	2,459	59,393
2024	4,696	798	5,494
2025	4,696	704	5,400
2026	4,696	610	5,306
2027 - 2031	23,479	1,644	25,123
2032	4,695	48	4,743
Total	\$ 159,303	\$ 11,981	\$ 171,284

City of Tracy, Minnesota
Notes to the Financial Statements
December 31, 2021

Note 3: Detailed Notes on all Funds (Continued)

Changes in Long-term Liabilities

Long-term liability activity for the year ended December 31, 2021 was as follows:

	<u>Beginning Balance</u>	<u>Increases/ Adjustments</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities					
Bonds Payable					
G.O. special					
assessment bonds	\$ 2,200,000	\$ -	\$ (215,000)	\$ 1,985,000	\$ 210,000
G.O. bonds	6,513,000	-	(238,000)	6,275,000	242,000
Total bonds payable	<u>8,713,000</u>	<u>-</u>	<u>(453,000)</u>	<u>8,260,000</u>	<u>452,000</u>
Loan Payable	208,543	-	(49,240)	159,303	60,107
Bond Premiums	104,513	-	(8,738)	95,775	-
Compensated Absences Payable	<u>88,679</u>	<u>71,749</u>	<u>(55,040)</u>	<u>105,388</u>	<u>41,662</u>
Governmental Activities Long-term Liabilities	<u>\$ 9,114,735</u>	<u>\$ 71,749</u>	<u>\$ (566,018)</u>	<u>\$ 8,620,466</u>	<u>\$ 553,769</u>
Business-type Activities					
Bonds Payable					
G.O. special					
assessment bonds	\$ 1,005,000	\$ -	\$ (85,000)	\$ 920,000	\$ 85,000
G.O. bonds	1,110,000	-	(135,000)	975,000	30,000
G.O. temporary bonds	8,395,000	-	-	8,395,000	8,395,000
G.O. revenue bonds	9,734,000	-	(329,000)	9,405,000	-
Total Bonds Payable	<u>20,244,000</u>	<u>-</u>	<u>(549,000)</u>	<u>19,695,000</u>	<u>8,510,000</u>
Bond Premiums	69,981	-	(7,128)	62,853	-
Compensated Absences Payable	<u>35,291</u>	<u>20,120</u>	<u>(17,727)</u>	<u>37,684</u>	<u>14,550</u>
Business-type Activities Long-term Liabilities	<u>\$ 20,349,272</u>	<u>\$ 20,120</u>	<u>\$ (573,855)</u>	<u>\$ 19,795,537</u>	<u>\$ 8,524,550</u>

City of Tracy, Minnesota
Notes to the Financial Statements
December 31, 2021

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.

Public Employees Police and Fire

The Police and Fire Plan, originally established for police officers and firefighters not covered by a local relief association, now covers all police officers and firefighters hired since 1980. Effective July 1, 1999, the Police and Fire Plan also covers police officers and firefighters belonging to a local relief association that elected to merge with and transfer assets and administration to PERA.

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

City of Tracy, Minnesota
Notes to the Financial Statements
December 31, 2021

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

Police and Fire Plan Benefits

Benefits for the Police and Fire Plan members first hired after June 30, 2010, but before July 1, 2014, vest on a prorated basis from 50 percent after five years up to 100 percent after ten years of credited service. Benefits for Police and Fire Plan members first hired after June 30, 2014, vest on a prorated basis from 50 percent after ten years up to 100 percent after twenty years of credited service. The annuity accrual rate is 3 percent of average salary for each year of service. For Police and Fire Plan members who were first hired prior to July 1, 1989, a full annuity is available when age plus years of service equal at least 90.

Benefit increases are provided to benefit recipients each January. The postretirement increase is fixed at 1 percent. Recipients that have been receiving the annuity or benefit for at least 36 months as of the June 30 before the effective date of the increase will receive the full increase. For recipients receiving the annuity or benefit for at least 25 months but less than 36 months as of the June 30 before the effective date of the increase will receive a reduced prorated increase.

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 2021 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, 2021, 2020 and 2019 were \$75,652, \$69,858 and \$62,272 respectively. The City's contributions were equal to the required contributions for each year as set by state statute.

Police and Fire Fund Contributions

Police and Fire Plan members were required to contribute 11.80 percent of their annual covered salary in fiscal year 2021 and the City was required to contribute 17.70 percent for Police and Fire Plan members. The City's contributions to the Police and Fire Fund for the years ending December 31, 2021, 2020 and 2019 were \$40,066, \$39,010 and \$31,775, respectively. The City's contributions were equal to the required contributions for each year as set by Minnesota statute.

D. Pension Costs

General Employees Fund Pension Costs

At December 31, 2021, the City reported a liability of \$576,510 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 \$17,590. The net pension liability was measured as of June 30, 2021, 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, 2020 through June 30, 2021 relative to the total employer contributions received from all of PERA's participating employers. The City's proportionate share was 0.0135 percent which was a 0.0013 percent increase from its proportion measured as of June 30, 2020.

City of Tracy, Minnesota
Notes to the Financial Statements
December 31, 2021

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

City's Proportionate Share of the Net Pension Liability	\$ 576,510
State of Minnesota's Proportionate Share of the Net Pension Liability Associated with the City	17,590
Total	\$ 594,100

For the year ended December 31, 2021, the City recognized pension expense of \$46,916 for its proportionate share of the General Employees Plan's pension expense. In addition, the City recognized \$1,419 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, 2021 the City reported its proportionate share of General Employees Plan's deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	\$ 3,017	\$ 17,446
Changes in Actuarial Assumptions	352,005	11,315
Net Difference Between Projected and Actual Earnings on Plan Investments	-	500,951
Changes in Proportion	73,130	-
Contributions Paid to PERA Subsequent to the Measurement Date	38,047	-
Total	\$ 466,199	\$ 529,712

The \$38,047 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, 2022. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

2022	\$ 20,855
2023	20,140
2024	(6,374)
2025	(136,181)

Police and Fire Fund Pension Costs

At December 31, 2021, the City reported a liability of \$145,116 for its proportionate share of the Police and Fire Fund's net pension liability. The net pension liability was measured as of June 30, 2021, 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, 2020, through June 30, 2021, relative to the total employer contributions received from all of PERA's participating employers. The City's proportionate share was 0.0188 percent which was a zero decrease from its proportionate share measured as of June 30, 2020.

City of Tracy, Minnesota
Notes to the Financial Statements
December 31, 2021

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

The State of Minnesota contributed \$18 million to the Police and Fire Fund in the plan fiscal year ended June 30, 2021. The contribution consisted of \$9 million in direct state aid that does meet the definition of a special funding situation and \$9 million in supplemental state aid that does not meet the definition of a special funding situation. The \$9 million direct state was paid on October 1, 2020. Thereafter, by October 1 of each year, the state will pay \$9 million to the Police and Fire Fund until full funding is reached or July 1, 2048, whichever is earlier. The \$9 million in supplemental state aid will continue until the fund is 90 percent funded, or until the State Patrol Plan (administered by the Minnesota State Retirement System) is 90 percent funded, whichever occurs later. Strong asset returns for the fiscal year ended 2021 will accelerate the phasing out of these state contributions, although we do not anticipate them to be phased out during the fiscal year ending 2022.

The State of Minnesota is included as a non-employer contributing entity in the Police and Fire Retirement Plan Schedule of Employer Allocations and Schedule of Pension Amounts by Employer, Current Reporting Period Only (pension allocation schedules) for the \$9 million in direct state aid. Police and Fire Plan employers need to recognize their proportionate share of the State of Minnesota's pension expense (and grant revenue) under GASB 68 special funding situation accounting and financial reporting requirements. For the year ended December 31, 2021, the City recognized negative pension expense of \$9,684 for its proportionate share of the Police and Fire Plan's pension expense. In addition, the City recognized an additional \$\$1,191 as pension expense (grant revenue) for its proportionate share of the State of Minnesota's contribution of \$9 million to the Police and Fire Fund.

The State of Minnesota is not included as a non-employer contributing entity in the Police and Fire Pension Plan pension allocation schedules for the \$9 million in supplemental state aid. The City also recognized \$1,692 for the year ended December 31, 2020 as revenue and an offsetting reduction of net pension liability for its proportionate share of the State of Minnesota's on-behalf contributions to the Police and Fire Fund.

At December 31, 2021, the City reported its proportionate share of the Police and Fire Plan's deferred outflows of resources and deferred inflows of resources from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	\$ 32,016	\$ 332
Changes in Actuarial Assumptions	226,253	95,937
Net Difference Between Projected and Actual Earnings on Plan Investments	-	277,717
Changes in Proportion	15,365	18,099
Contributions Paid to PERA Subsequent to the Measurement Date	20,403	-
Total	\$ 294,037	\$ 392,085

The \$20,403 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, 2022. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

2022	\$ (100,284)
2023	(19,487)
2024	(19,805)
2025	(25,567)
2026	46,692

City of Tracy, Minnesota
Notes to the Financial Statements
December 31, 2021

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

E. Actuarial Assumptions

The total pension liability in the June 30, 2021 actuarial valuation was determined using an individual entry-age normal actuarial cost method and the following actuarial assumptions: The long-term rate of return on pension plan investments used in the determination of the total liability is 6.5 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 6.5 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. The Police and Fire Plan benefit increase is fixed at 1 percent per year and that increase was used in the valuation.

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 29 years of service and 6.0 percent per year thereafter. 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. Mortality rates for the Police and Fire Plan is based on the Pub-2010 Public Safety Employee Mortality tables. The tables are adjusted slightly to fit PERA's experience.

Actuarial assumptions used in the June 30, 2021 valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2019. The assumption changes were adopted by the Board and become effective with the July 1, 2020 actuarial valuation. The most recent four-year experience study for the Police and Fire Plan was completed in 2020 were adopted by the Board and became effective with the July 1, 2021 actuarial valuation.

The following changes in actuarial assumptions and plan provisions occurred in 2021:

General Employees Fund

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

City of Tracy, Minnesota
Notes to the Financial Statements
December 31, 2021

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

Police and Fire Fund

Changes in Actuarial Assumptions

- The investment return and single discount rates were changed from 7.50 percent to 6.50 percent, for financial reporting purposes.
- The inflation assumption was changed from 2.50 percent to 2.25 percent.
- The payroll growth assumption was changed from 3.25 percent to 3.00 percent.
- The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 Public Safety Mortality table. The mortality improvement scale was changed from MP-2019 to MN-2020.
- The base mortality table for disabled annuitants was changed from the RP-2014 healthy annuitant mortality table (with future mortality improvement according to Scale MP-2019) to the Pub-2010 Public Safety disabled annuitant mortality table (with future mortality improvement according to Scale MP-2020).
- Assumed rates of salary increase were modified as recommended in the July 14, 2020 experience study. The overall impact is a decrease in gross salary increase rates.
- Assumed rates of retirement were changed as recommended in the July 14, 2020 experience study. The changes result in slightly more unreduced retirements and fewer assumed early retirements.
- Assumed rates of withdrawal were changed from select and ultimate rates to service-based rates. The changes result in more assumed terminations.
- Assumed rates of disability were increased for ages 25-44 and decreased for ages over 49. Overall, proposed rates result in more projected disabilities.
- Assumed percent married for active female members was changed from 60 percent to 70 percent. Minor changes to form of payment assumptions were applied.

Changes in Plan Provisions

- There have been no changes since the prior valuation.

City of Tracy, Minnesota
Notes to the Financial Statements
December 31, 2021

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

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	33.50 %	5.10 %
Alternative Assets (Private Markets)	25.00	5.90
Bonds (Fixed Income)	25.00	0.75
International Equity	16.50	5.30
Total	<u>100.00 %</u>	

F. Discount Rate

The discount rate used to measure the total pension liability in 2021 was 6.50 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Fund and the Police and Fire Fund 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.

G. 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:

	City Proportionate Share of NPL		
	1 Percent Decrease (5.50%)	Current (6.50%)	1 Percent Increase (7.50%)
General Employees Fund	\$ 1,175,787	\$ 576,510	\$ 84,767
Police and Fire Fund	130,719	145,116	(113,600)

H. Pension Plan Fiduciary Net Position

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

City of Tracy, Minnesota
Notes to the Financial Statements
December 31, 2021

Note 5: Defined Benefit Pension Plan - Fire Relief Association

A. Plan Description

All members of the Tracy Fire Department (the Department) are covered by a defined benefit plan administered by the Tracy Firefighters Relief Association (the Association). As of December 31, 2020, the plan covered 27 active firefighters and 9 vested terminated fire fighters whose pension benefits are deferred. The plan is a single employer retirement plan and is established and administered in accordance with Minnesota statute, chapter 69.

The Association maintains a separate Special fund to accumulate assets to fund the retirement benefits earned by the Department's membership. Funding for the Association is derived from an insurance premium tax in accordance with the Volunteer Firefighter's Relief Association Financing Guidelines Act of 1971 (chapter 261 as amended by chapter 509 of Minnesota statutes 1980). Funds are also derived from investment income.

B. Benefits Provided

A fire fighter who completes at least 20 years as an active member of the Department is entitled, after age 50, to a full service pension upon retirement.

The bylaws of the Association also provide for an early vested service pension for a retiring member who has completed fewer than 20 years of service. The reduced pension, available to members with 10 years of service, shall be equal to 60 percent of the pension as prescribed by the bylaws. This percentage increases 4 percent per year so that at 20 years of service, the full amount prescribed is paid. Members who retire with less than 20 years of service and have reached the age of 50 years and have completed at least 10 years of active membership are entitled to a reduced service pension not to exceed the amount calculated by multiplying the member's service pension for the completed years of service times the applicable non-forfeitable percentage of pension.

C. Contributions

Minnesota statutes, chapters 424 and 424A authorize pension benefits for volunteer fire relief associations. The plan is funded by fire state aid, investment earnings and, if necessary, employer contributions as specified in Minnesota statutes and voluntary City contributions (if applicable). The State of Minnesota contributed \$27,163 in fire state aid to the plan on behalf of the City Fire Department for the year ended December 31, 2021, which was recorded as a revenue. Required employer contributions are calculated annually based on statutory provisions. The City's statutorily-required contributions to the plan for the year ended December 31, 2021 were \$28,163. The City's contributions were equal to the required contributions as set by state statute. The City made voluntary contributions of \$1,000 to the plan. Furthermore, the firefighter has no obligation to contribute to the plan.

City of Tracy, Minnesota
Notes to the Financial Statements
December 31, 2021

Note 5: Defined Benefit Pension Plan - Fire Relief Association (Continued)

D. Pension Costs

At December 31, 2021 the City reported a net pension liability (asset) of (\$180,316) for the Volunteer Firefighter Fund. The net pension liability (asset) was measured as of December 31, 2021. The total pension liability used to calculate the net pension liability (asset) in accordance with GASB 68 was determined by Van Iwaarden Associates, applying an actuarial formula to specific census data certified by the Department. The following table presents the changes in net pension liability (asset) during the year.

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a-b)
Beginning Balance January 1, 2020	\$ 427,588	\$ 538,932	\$ (111,344)
Changes for the Year			
Service cost	23,338	-	23,338
Interest on pension liability (asset)	22,069	-	22,069
Differences between expected and actual experience	(17,877)	-	(17,877)
Change of assumptions	12,176	-	12,176
Contributions - State and local	-	28,163	(28,163)
Contributions - member	-	22	(22)
Net investment income	-	80,690	(80,690)
Benefit payments	(19,088)	(19,088)	-
Administrative expenses	-	(197)	197
Total Net Changes	<u>20,618</u>	<u>89,590</u>	<u>(68,972)</u>
Ending Balance December 31, 2020	<u>\$ 448,206</u>	<u>\$ 628,522</u>	<u>\$ (180,316)</u>

For the year ended December 31, 2021 the City recognized pension expense of \$45,789.

At December 31, 2021 the City reported deferred inflows of resources and deferred outflows of resources, its contributions subsequent to the measurement date, related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ -	\$ 52,676
Changes in Actuarial Assumptions	18,038	6,140
Net Difference Between Projected and Actual Earnings on Plan Investments	-	55,532
Contributions to Plan Subsequent to the Measurement Date	<u>28,799</u>	<u>-</u>
Total	<u>\$ 46,837</u>	<u>\$ 114,348</u>

City of Tracy, Minnesota
Notes to the Financial Statements
December 31, 2021

Note 5: Defined Benefit Pension Plan - Fire Relief Association (Continued)

Deferred outflows of resources totaling \$28,799 related to pensions resulting from the City's contributions to the plan subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2022. Other amounts reported as deferred outflows and inflows of resources related to the plan will be recognized in pension expense as follows:

2022	\$ (21,308)
2023	(17,761)
2024	(27,310)
2025	(17,701)
2026	(5,602)
Thereafter	(6,628)

E. Actuarial Assumptions

The total pension liability at December 31, 2021 was determined using the entry age normal actuarial cost method and the following actuarial assumptions:

Retirement eligibility at the later of age 50 or after completion of 20 years of service. If a member is both age 50 and has 5 years of service, but not 20 years of service, the lump sum pension will be reduced by 4 percent for each year of service less than 20 years.

Cost of Living Increases	2.25% per year
Investment Rate of Return	4.50%
20 Year Municipal Bond Yield	2.00%

In 2021, the following changes in assumptions occurred:

- The expected investment return and discount rate decreased from 5.00% to 4.50% to reflect updated capital market assumptions.
- The mortality assumptions were updated from the rates used in the July 1, 2018 Minnesota PERA Police & Fire Plan actuarial valuation to the rates used in the July 1, 2020 Minnesota PERA Police & Fire Plan actuarial valuation
- The inflation assumption decreased from 2.50% to 2.25%

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimates for expected future real rates of return (expected returns, net of inflation) were developed for each asset class using the plan's target investment allocation along with long-term return expectations by asset class. Inflation expectations were applied to derive the nominal rate of return for the portfolio.

City of Tracy, Minnesota
Notes to the Financial Statements
December 31, 2021

Note 5: Defined Benefit Pension Plan - Fire Relief Association (Continued)

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	Long-term Expected Nominal Rate of Return
Domestic Equity	40.00 %	4.90 %	7.15 %
International Equity	10.00	5.32	7.57
Fixed Income	35.00	1.40	3.65
Real Estate and Alternatives	1.00	4.43	6.68
Cash and Equivalents	14.00	0.09	2.34
 Total	 <u>100.00 %</u>		 5.67 %
Reduced for assumed investment expense			(1.10)
Net assumed investment return (weighted average, rounded to 1/4 percent)			<u>4.50 %</u>

F. Discount Rate

The discount rate used to measure the total pension liability was 5.00 percent. The projection of cash flows used to determine the discount rate assumed that contributions to the plan will be made as specified in statute. Based on that assumption and considering the funding ratio of the plan, the fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive 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.

G. Pension Liability Sensitivity

The following presents the City's net pension liability (asset) for the plan, calculated using the discount rate disclosed in the preceding paragraph, as well as what the City's net pension liability (asset) would be if it were calculated using a discount rate 1 percent lower or 1 percent higher than the current discount rate:

	1 Percent Decrease (3.50%)	Current (4.50%)	1 Percent Increase (5.50%)
Defined Benefit Plan	\$ (161,655)	\$ (180,316)	\$ (198,298)

H. Pension Plan Fiduciary Net Position

The Association issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to Tracy Firefighters' Relief Association, 336 Morgan Street, Tracy, MN 56175

City of Tracy, Minnesota
Notes to the Financial Statements
December 31, 2021

Note 6: 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 the City's coverage in any of the past three fiscal years.

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

B. Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

C. Legal Debt Margin

In accordance with Minnesota statutes, the City may not incur or be subject to net debt in excess of three 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. As of December 31, 2021, the City is under the legal debt margin.

D. Concentrations

The City receives a significant amount of its annual General fund revenues from the State of Minnesota from the Local Government Aid (LGA) program. The amount received in 2021 was \$963,905. This accounted for 45 percent of General fund revenues.

Note 7: Tax Abatements

As of December 31, 2021, the City has entered into an agreement that abate City property taxes. Below is the information specific to the agreements:

The City entered into a tax abatement agreement in 2019 with a private buyer. In return, the City will reimburse the buyer for some costs as the city collects future taxes for the increased property value and tax capacity related to the economic development. The agreement has a maximum return to the buyer of \$200,000 over the life of the agreement. The agreement was negotiated under state law (Minnesota Statute 469.1813). The amount of taxes abated during 2021 totaled \$5,604

The City entered into a tax abatement agreement in 2020 with a private buyer. In return, the City will reimburse the buyer for some costs as the city collects future taxes for the increased property value and tax capacity related to the economic development. The agreement has a maximum return to the buyer of \$200,000 over the life of the agreement. The agreement was negotiated under state law (Minnesota Statute 469.1813). The amount of taxes abated during 2021 totaled \$3,180.

City of Tracy, Minnesota
Notes to the Financial Statements
December 31, 2021

Note 7: Tax Abatements (Continued)

The City entered into a tax abatement agreement in 2021 with a private buyer. In return, the City will reimburse the buyer for some costs as the city collects future taxes for the increased property value and tax capacity related to the economic development. The agreement has a maximum return to the buyer of \$200,000 over the life of the agreement. The agreement was negotiated under state law (Minnesota Statute 469.1813). The amount of taxes abated during 2021 totaled \$411.

The City entered into a tax abatement agreement in 2021 with a private buyer. In return, the City will reimburse the buyer for some costs as the city collects future taxes for the increased property value and tax capacity related to the economic development. The agreement has a maximum return to the buyer of \$200,000 over the life of the agreement. The agreement was negotiated under state law (Minnesota Statute 469.1813). The amount of taxes abated during 2021 totaled \$72.

The City entered into a tax abatement agreement in 2021 with a private buyer. In return, the City will reimburse the buyer for some costs as the city collects future taxes for the increased property value and tax capacity related to the economic development. The agreement has a maximum return to the buyer of \$200,000 over the life of the agreement. The agreement was negotiated under state law (Minnesota Statute 469.1813). The amount of taxes abated during 2021 totaled \$10,558.

The City entered into a tax abatement agreement in 2021 with a private buyer. In return, the City will reimburse the buyer for some costs as the city collects future taxes for the increased property value and tax capacity related to the economic development. The agreement has a maximum return to the buyer of \$200,000 over the life of the agreement. The agreement was negotiated under state law (Minnesota Statute 469.1813). The amount of taxes abated during 2021 totaled \$397.

Note 8: Subsequent Event

On February 28, 2022, the City approved the issuance of a \$8,395,000 general obligation temporary bonds, series 2022A with a closing date of April 21, 2022. The proposed issue includes financing to refund at maturity on May 1, 2022, the City's outstanding General Obligation Temporary Bonds, Series 2019A which provided temporary financing for the construction of the Phase 3 Infrastructure Improvements to the City's current water, wastewater, and storm sewer systems, in anticipation of a long-term loan from the United States Department of Agriculture, Rural Development. The bonds are being issued for a term of 3 years.

Note 9: COVID-19

On January 30, 2020, the World Health Organization ("WHO") announced a global health emergency because of a new strain of coronavirus ("COVID-19") and the risks to the international community as virus spreads globally. On March 11, 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally. In response to the pandemic, the State of Minnesota has issued stay-at-home orders and other measures aimed at slowing the spread of the coronavirus.

The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. Due to the rapid development and fluidity of this situation, the City cannot determine the ultimate impact that the COVID-19 pandemic will have on its financial condition, liquidity, and future revenue collection, and therefore any prediction as to the ultimate impact on the City's financial condition, liquidity, and future results of its revenue collections is uncertain.

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REQUIRED SUPPLEMENTARY INFORMATION

CITY OF TRACY
TRACY, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2021

City of Tracy, Minnesota
 Required Supplementary Information
 For the Year Ended December 31, 2021

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

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/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
06/30/21	0.0135 %	\$ 576,510	\$ 17,590	\$ 594,100	\$ 972,118	59.3 %	87.0 %
06/30/20	0.0122	731,446	22,598	754,044	870,041	84.1	79.0
06/30/19	0.0115	635,809	19,666	655,475	812,173	78.3	80.2
06/30/18	0.0107	593,592	19,557	613,149	720,659	82.4	79.5
06/30/17	0.0120	766,072	9,630	775,702	772,886	99.1	75.9
06/30/16	0.0124	1,006,818	13,085	1,019,903	760,515	132.4	68.9
06/30/15	0.0132	684,093	-	684,093	789,986	86.6	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 Fund

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)
12/31/21	\$ 75,652	\$ 75,652	\$ -	\$ 1,008,694	7.5 %
12/31/20	69,858	69,858	-	931,437	7.5
12/31/19	62,272	62,272	-	830,295	7.5
12/31/18	56,453	56,453	-	752,710	7.5
12/31/17	54,135	54,135	-	721,796	7.5
12/31/16	57,395	57,395	-	765,264	7.5
12/31/15	59,400	59,400	-	819,310	7.3

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

City of Tracy, Minnesota
Required Supplementary Information (Continued)
For the Year Ended December 31, 2021

Notes to the Required Supplementary Information - General Employee Fund

Changes in Actuarial Assumptions

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 Tracy, Minnesota
Required Supplementary Information (Continued)
For the Year Ended December 31, 2021

Notes to the Required Supplementary Information - General Employee Fund (Continued)

Changes in Plan Provisions

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.

City of Tracy, Minnesota
 Required Supplementary Information (Continued)
 For the Year Ended December 31, 2021

Schedule of Employer's Share of PERA Net Pension Liability - Police and Fire Fund

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/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
06/30/21	0.0188 %	\$ 145,116	\$ 6,542	\$ 151,658	\$ 222,249	65.3 %	93.7 %
06/30/20	0.0188	247,804	5,855	253,659	221,817	111.7	87.2
06/30/19	0.0177	188,434	-	188,434	187,203	100.7	89.3
06/30/18	0.0194	206,784	-	206,784	204,410	101.2	88.8
06/30/17	0.0200	270,024	-	270,024	204,695	131.9	85.4
06/30/16	0.0190	762,503	-	762,503	185,171	411.8	63.9
06/30/15	0.0190	215,884	-	215,884	180,967	119.3	86.6

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

Schedule of Employer's PERA Contributions - Police and Fire Fund

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)
12/31/21	\$ 40,066	\$ 40,066	\$ -	\$ 226,361	17.7 %
12/31/20	39,010	39,010	-	230,147	17.0
12/31/19	31,775	31,775	-	187,462	17.0
12/31/18	32,544	32,544	-	200,886	16.2
12/31/17	33,906	33,906	-	209,296	16.2
12/31/16	30,298	30,298	-	187,025	16.2
12/31/15	30,456	30,456	-	188,003	16.2

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

City of Tracy, Minnesota
Required Supplementary Information (Continued)
For the Year Ended December 31, 2021

Notes to the Required Supplementary Information - Police and Fire Fund

Changes in Actuarial Assumptions

2021 - The investment return and single discount rates were changed from 7.50 percent to 6.50 percent, for financial reporting purposes. The inflation assumption was changed from 2.50 percent to 2.25 percent. The payroll growth assumption was changed from 3.25 percent to 3.00 percent. The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 Public Safety Mortality table. The mortality improvement scale was changed from MP-2019 to MN-2020. The base mortality table for disabled annuitants was changed from the RP-2014 healthy annuitant mortality table (with future mortality improvement according to Scale MP-2019) to the Pub-2010 Public Safety disabled annuitant mortality table (with future mortality improvement according to Scale MP-2020). Assumed rates of salary increase were modified as recommended in the July 14, 2020 experience study. The overall impact is a decrease in gross salary increase rates. Assumed rates of retirement were changed as recommended in the July 14, 2020 experience study. The changes result in slightly more unreduced retirements and fewer assumed early retirements. Assumed rates of withdrawal were changed from select and ultimate rates to service-based rates. The changes result in more assumed terminations. Assumed rates of disability were increased for ages 25-44 and decreased for ages over 49. Overall, proposed rates result in more projected disabilities. Assumed percent married for active female members was changed from 60 percent to 70 percent. Minor changes to form of payment assumptions were applied.

2020 - The mortality projection scale was changed from MP-2018 to MP-2019.

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

2018 - The mortality projection scale was changed from MP-2016 to MP-2017. As set by statute, the assumed post-retirement benefit increase was changed from 1.0 percent per year through 2064 and 2.5 percent per year, thereafter, to 1.0 percent for all years, with no trigger

2017 - Assumed salary increases were changed as recommended in the June 30, 2016 experience study. The net effect is proposed rates that average 0.34 percent lower than the previous rates. Assumed rates of retirement were changed, resulting in fewer retirements. The Combined Service Annuity (CSA) load was 30 percent for vested and non-vested deferred members. The CSA has been changed to 33 percent for vested members and 2 percent for non-vested members. The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the mortality tables assumed for healthy retirees. Assumed termination rates were decreased to 3.0 percent for the first three years of service. Rates beyond the select period of three years were adjusted, resulting in more expected terminations overall. Assumed percentage of married female members was decreased from 65 percent to 60 percent. Assumed age difference was changed from separate assumptions for male members (wives assumed to be three years younger) and female members (husbands assumed to be four years older) to the assumption that males are two years older than females. The assumed percentage of female members electing joint and survivor annuities was increased. The assumed post-retirement benefit increase rate was changed from 1.00 percent for all years to 1.00 percent per year through 2064 and 2.50 percent thereafter. The single discount rate was changed from 5.6 percent to 7.5 percent.

2016 - The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2037 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 5.6 percent. 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 2037 and 2.5 percent per year thereafter.

City of Tracy, Minnesota
Required Supplementary Information (Continued)
For the Year Ended December 31, 2021

Notes to the Required Supplementary Information - Police and Fire Fund (Continued)

Changes in Plan Provisions

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

2020 - There were no changes in plan provisions since the previous valuation.

2019 - There were no changes in plan provisions since the previous valuation.

2018 - As set by statute, the assumed post-retirement benefit increase was changed from 1.0 percent per year through 2064 and 2.5 percent per year, thereafter, to 1.0 percent for all years, with no trigger. An end date of July 1, 2048 was added to the existing \$9.0 million state contribution. New annual state aid will equal \$4.5 million in fiscal years 2019 and 2020, and \$9.0 million thereafter until the plan reaches 100 percent funding, or July 1, 2048, if earlier. Member contributions were changed from 10.80 percent to 11.30 percent of pay, effective January 1, 2019 and 11.80 percent of pay, effective January 1, 2020. Employer contributions were changed from 16.20 percent to 16.95 percent of pay, effective January 1, 2019 and 17.70 percent of pay, effective January 1, 2020. 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. Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

2017 - Assumed salary increases were changed as recommended in the June 30, 2016 experience study. The net effect is proposed rates that average 0.34 percent lower than the previous rates. Assumed rates of retirement were changed, resulting in fewer retirements. The combined service annuity (CSA) load was 30.00 percent for vested and non-vested, deferred members. The CSA has been changed to 33.00 percent for vested members and 2.00 percent for non-vested members. The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the mortality tables assumed for healthy retirees. Assumed termination rates were decreased to 3.00 percent for the first three years of service. Rates beyond the select period of three years were adjusted, resulting in more expected terminations overall. Assumed percentage of married female members was decreased from 65.00 percent to 60.00 percent. Assumed age difference was changed from separate assumptions for male members (wives assumed to be three years younger) and female members (husbands assumed to be four years older) to the assumption that males are two years older than females. The assumed percentage of female members electing joint and survivor annuities was increased. The assumed postretirement benefit increase rate was changed from 1.00 percent for all years to 1.00 percent per year through 2064 and 2.50 percent thereafter. The single discount rate was changed from 5.60 percent per annum to 7.50 percent per annum.

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

2015 - The post-retirement benefit increase to be paid after attainment of the 90 percent funding threshold was changed, from inflation up to 2.5 percent, to a fixed rate of 2.5 percent.

City of Tracy, Minnesota
Required Supplementary Information (Continued)
For the Year Ended December 31, 2021

Schedule of Changes in the Fire Relief Association's Net Pension Liability (Asset) and Related Ratios

	2021 (Fire Relief Report Date 2020)	2020 (Fire Relief Report Date 2019)	2019 (Fire Relief Report Date 2018)	2018 (Fire Relief Report Date 2017)	2017 (Fire Relief Report Date 2016)	2016 (Fire Relief Report Date 2015)	2015 (Fire Relief Report Date 2014)
Total Pension Liability							
Service cost	\$ 23,338	\$ 22,769	\$ 21,069	\$ 20,505	\$ 19,110	\$ 20,712	\$ 20,158
Interest on pension liability (asset)	22,069	20,361	21,733	20,901	19,277	14,733	15,117
Differences between expected and actual experience	(17,877)	-	(16,029)	-	(47,682)	-	-
Changes of assumptions	12,176	-	10,458	-	-	(15,854)	-
Changes of benefit terms	-	-	-	-	37,436	-	-
Benefit payments	(19,088)	-	(53,700)	-	-	(28,300)	(61,448)
Net Change in Total Pension Liability	20,618	43,130	(16,469)	41,406	28,141	(8,709)	(26,173)
Total Pension Liability - January 1	427,588	384,458	400,927	359,521	331,380	340,089	366,262
Total Pension Liability - December 31 (A)	\$ 448,206	\$ 427,588	\$ 384,458	\$ 400,927	\$ 359,521	\$ 331,380	\$ 340,089
Plan Fiduciary Net Position							
Employer contributions	\$ 28,163	\$ 35,068	\$ 28,099	\$ 31,926	\$ 32,361	\$ 33,693	\$ 31,564
Nonemployer contributions	22	175	400	22	222	182	197
Projected investment return	80,690	68,615	(22,850)	40,501	13,926	(11,707)	8,639
Benefit payments	(19,088)	-	(53,700)	-	-	(28,300)	(61,448)
Administrative expenses	(197)	-	(400)	(22)	(307)	(182)	(197)
Other	-	-	-	-	-	-	(40)
Net Change in Plan Fiduciary Net Position	89,590	103,858	(48,451)	72,427	46,202	(6,314)	(21,285)
Plan Fiduciary Net Position - January 1	538,932	435,074	483,525	411,098	364,896	371,210	392,495
Plan Fiduciary Net Position - December 31 (B)	\$ 628,522	\$ 538,932	\$ 435,074	\$ 483,525	\$ 411,098	\$ 364,896	\$ 371,210
Fire Relief's Net Pension Liability (Asset) - December 31 (A-B)	\$ (180,316)	\$ (111,344)	\$ (50,616)	\$ (82,598)	\$ (51,577)	\$ (33,516)	\$ (31,121)
Plan Fiduciary Net Position As a Percentage of the Total Pension Liability (B/A)	140.23%	126.04%	113.17%	120.60%	114.35%	110.11%	109.15%
Covered Payroll	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Fire Relief's Net Pension Liability (Asset) As a Percentage of Covered Payroll	N/A	N/A	N/A	N/A	N/A	N/A	N/A

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

City of Tracy, Minnesota
Required Supplementary Information (Continued)
For the Year Ended December 31, 2021

Notes to the Required Supplementary Information - Fire Relief Association

Changes in Actuarial Assumptions

2021 - The expected investment return and discount rate decreased from 5.00% to 4.50% to reflect updated capital market assumptions. The mortality assumptions were updated from the rates used in the July 1, 2018 Minnesota PERA Police & Fire Plan actuarial valuation to the rates used in the July 1, 2020 Minnesota PERA Police & Fire Plan actuarial valuation. The inflation assumption decreased from 2.50% to 2.25%.

2020 - No changes in noted.

2019 - The expected investment return and discount rate decreased from 5.50% to 5.00% to reflect updated capital market assumptions. The mortality and withdrawal assumptions were updated from the rates used in the July 1, 2016 Minnesota PERA Police & Fire Plan actuarial valuation to the rates used in the July 1, 2018 Minnesota PERA Police & Fire Plan actuarial valuation. The inflation assumption decreased from 2.75% to 2.50%.

2016 - The discount rate increased from 4.25% to 5.50%.

2015 - Amounts reported as changes of assumptions resulted primarily from adjustments to expected retirement ages of general employees. Amounts reported as changes of assumptions resulted primarily from adjustments to expected retirement ages of public safety employees. Amounts reported as changes of assumptions resulted primarily from adjustments to assumed life expectancies as a result of adopting the RP-2000 Healthy Annuitant Mortality Table for purposes of developing mortality rates.

Changes in Benefits

2021 - No changes noted.

2020 - No changes noted.

2019 - No changes noted.

2018 - No changes noted.

2017 - Benefit was increased from \$1,500 to \$1,700.

2016 - No changes noted.

2015 - The benefit terms were modified to base public safety employee pensions on a final three-year average salary instead of a final five-year average salary.

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

City of Tracy, Minnesota
 Required Supplementary Information (Continued)
 For the Year Ended December 31, 2021

Schedule of Employer's Contributions - Tracy Firefighters Relief Association

Year Ending	Actuarial Determined Contribution (a)	Actual Contributions Paid (b)	Contribution Deficiency (Excess) (a-b)
12/31/21	\$ 27,799	\$ 28,799	\$ (1,000)
12/31/20	27,163	28,163	(1,000)
12/31/19	27,068	31,068	(4,000)
12/31/18	28,099	28,099	-
12/31/17	27,926	31,926	(4,000)
12/31/16	29,861	29,861	-

COMBINING AND INDIVIDUAL FUND
FINANCIAL STATEMENTS AND SCHEDULES

CITY OF TRACY
TRACY, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2021

City of Tracy, Minnesota
 Nonmajor Governmental Funds
 Combining Balance Sheet
 December 31, 2021

	Nonmajor Special Revenue	Nonmajor Capital Projects	Totals
Assets			
Cash and temporary investments	\$ 381,555	\$ 1,000,882	\$ 1,382,437
Receivables			
Interest	302	128	430
Accounts	-	1,480	1,480
Notes	175,450	-	175,450
Intergovernmental	44,597	-	44,597
Assets held for resale	19,162	-	19,162
 Total Assets	 \$ 621,066	 \$ 1,002,490	 \$ 1,623,556
Liabilities			
Accounts payable	\$ 214,358	\$ 195	\$ 214,553
Accrued salaries payable	2,738	-	2,738
Total Liabilities	217,096	195	217,291
Fund Balances			
Restricted for			
Economic development	175,450	-	175,450
Future capital improvements to the hospital facilities	-	730,683	730,683
Capital outlay	-	5,000	5,000
Committed for			
Economic development	85,405	-	85,405
Library improvements	21,727	-	21,727
Assigned for			
Cemetery operations	121,388	-	121,388
Capital outlay	-	266,612	266,612
Total Fund Balances	403,970	1,002,295	1,406,265
 Total Liabilities and Fund Balances	 \$ 621,066	 \$ 1,002,490	 \$ 1,623,556

City of Tracy, Minnesota
 Nonmajor Governmental Funds
 Combining Statement of Revenues, Expenditures and Changes in Fund Balances
 For the Year Ended December 31, 2021

	Nonmajor Special Revenue	Nonmajor Capital Projects	Totals
Revenues			
Taxes	\$ -	\$ 42,000	\$ 42,000
Intergovernmental	294,107	5,000	299,107
Charges for services	12,300	-	12,300
Investment earnings	1,363	14,085	15,448
Miscellaneous	17,474	26,500	43,974
Total Revenues	<u>325,244</u>	<u>87,585</u>	<u>412,829</u>
Expenditures			
Current			
Public safety	-	1,695	1,695
Economic development	550,151	-	550,151
Miscellaneous	858	-	858
Capital outlay			
Public safety	-	19,420	19,420
Streets and highways	-	18,155	18,155
Culture and recreation	-	12,382	12,382
Miscellaneous	-	154,433	154,433
Total Expenditures	<u>551,009</u>	<u>206,085</u>	<u>757,094</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(225,765)</u>	<u>(118,500)</u>	<u>(344,265)</u>
Other Financing Sources (Uses)			
Sale of capital assets	1,000	2,500	3,500
Transfer in	15,500	-	15,500
Total Other Financing Sources (Uses)	<u>16,500</u>	<u>2,500</u>	<u>19,000</u>
Net Change in Fund Balances	(209,265)	(116,000)	(325,265)
Fund Balances, January 1	<u>613,235</u>	<u>1,118,295</u>	<u>1,731,530</u>
Fund Balances, December 31	<u>\$ 403,970</u>	<u>\$ 1,002,295</u>	<u>\$ 1,406,265</u>

City of Tracy, Minnesota
 Nonmajor Proprietary Funds
 Combining Statement of Net Position
 December 31, 2021

	603 Solid Waste Utility	654 Public Housing	Totals
Assets			
Current Assets			
Cash and temporary investments	\$ 4,453	\$ 256,058	\$ 260,511
Receivables			
Interest	-	63	63
Accounts	14,265	-	14,265
Total Current Assets	<u>18,718</u>	<u>256,121</u>	<u>274,839</u>
Noncurrent Assets			
Capital assets, at cost			
Land	-	35,173	35,173
Buildings	-	2,562,473	2,562,473
Improvements other than buildings	-	53,404	53,404
Equipment and machinery	-	165,915	165,915
Less accumulated depreciation	-	(1,616,076)	(1,616,076)
Total capital assets	<u>-</u>	<u>1,200,889</u>	<u>1,200,889</u>
(net of accumulated depreciation)	-	1,200,889	1,200,889
Total Assets	<u>18,718</u>	<u>1,457,010</u>	<u>1,475,728</u>
Liabilities			
Current Liabilities			
Accounts payable	10,223	444	10,667
Deposits payable	-	8,325	8,325
Due to other governments	1,112	-	1,112
Accrued interest payable	-	15,250	15,250
Bonds payable - current	-	30,000	30,000
Total Current Liabilities	<u>11,335</u>	<u>54,019</u>	<u>65,354</u>
Noncurrent Liabilities			
Bonds payable, noncurrent	-	991,288	991,288
Total Liabilities	<u>11,335</u>	<u>1,045,307</u>	<u>1,056,642</u>
Net Position			
Net investment in capital assets	-	179,601	179,601
Unrestricted	7,383	232,102	239,485
Total Net Position	<u>\$ 7,383</u>	<u>\$ 411,703</u>	<u>\$ 419,086</u>

City of Tracy, Minnesota
 Nonmajor Proprietary Funds
 Combining Statement of Revenues, Expenses and Changes in Net Position
 For the Year Ended December 31, 2021

	603 Solid Waste Utility	654 Public Housing	Totals
Operating Revenues			
Charges for services	\$ 156,536	\$ 134,888	\$ 291,424
Operating Expenses			
Personal services	-	165	165
Supplies	170	1,742	1,912
Other services and charges	147,780	21,789	169,569
Utilities	-	2,690	2,690
Depreciation	-	90,961	90,961
Total Operating Expenses	<u>147,950</u>	<u>117,347</u>	<u>265,297</u>
Operating Income (Loss)	<u>8,586</u>	<u>17,541</u>	<u>26,127</u>
Nonoperating Revenues (Expenses)			
Investment earnings (loss)	(4)	(282)	(286)
Amortization of bond premium	-	2,204	2,204
Interest and other expense	-	(37,108)	(37,108)
Total Nonoperating Revenues (Expenses)	<u>(4)</u>	<u>(35,186)</u>	<u>(35,190)</u>
Income (Loss) Before Transfers	8,582	(17,645)	(9,063)
Transfers out	<u>(30,000)</u>	<u>(15,500)</u>	<u>(45,500)</u>
Change in Net Position	(21,418)	(33,145)	(54,563)
Net Position, January 1	<u>28,801</u>	<u>444,848</u>	<u>473,649</u>
Net Position, December 31	<u>\$ 7,383</u>	<u>\$ 411,703</u>	<u>\$ 419,086</u>

City of Tracy, Minnesota
 Nonmajor Proprietary Funds
 Combining Statement of Cash Flows
 For the Year Ended December 31, 2021

	603	654	
	Solid Waste Utility	Public Housing	Totals
Cash Flows from Operating Activities			
Receipts from customers	\$ 167,430	\$ 134,888	\$ 302,318
Payments to suppliers and vendors	(136,615)	(26,269)	(162,884)
Payments to and on behalf of employees	-	(165)	(165)
Net Cash Provided (Used) by Operating Activities	<u>30,815</u>	<u>108,454</u>	<u>139,269</u>
Cash Flows from Noncapital Financing Activities			
Transfers to other funds	<u>(30,000)</u>	<u>(15,500)</u>	<u>(45,500)</u>
Cash Flows from Capital and Related Financing Activities			
Principal paid on bonds payable	-	(35,000)	(35,000)
Interest and fees paid on bonds payable	-	(37,108)	(37,108)
Net Cash Provided (Used) by Capital And Related Financing Activities	<u>-</u>	<u>(72,108)</u>	<u>(72,108)</u>
Cash Flows from Investing Activities			
Interest received on cash and temporary investments	<u>(4)</u>	<u>(345)</u>	<u>(349)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	811	20,501	21,312
Cash and Cash Equivalents, January 1	<u>3,642</u>	<u>235,557</u>	<u>239,199</u>
Cash and Cash Equivalents, December 31	<u><u>\$ 4,453</u></u>	<u><u>\$ 256,058</u></u>	<u><u>\$ 260,511</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities			
Operating income (loss)	\$ 8,586	\$ 17,541	\$ 26,127
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities			
Depreciation	-	90,961	90,961
(Increase) decrease in assets			
Accounts receivable	10,894	-	10,894
Increase (decrease) in liabilities			
Accounts payable	10,223	244	10,467
Due to other governments	1,112	-	1,112
Due to other funds	-	(292)	(292)
Net Cash Provided (Used) by Operating Activities	<u><u>\$ 30,815</u></u>	<u><u>\$ 108,454</u></u>	<u><u>\$ 139,269</u></u>
Noncash Investing, Capital and Financing Activities			
Amortization of Bond (Premium) Discount	<u><u>\$ -</u></u>	<u><u>\$ (2,204)</u></u>	<u><u>\$ (2,204)</u></u>

City of Tracy, Minnesota
 Nonmajor Special Revenue Funds
 Combining Balance Sheet
 December 31, 2021

	657	653	202	655	Total Nonmajor Funds
	Cemetery Perpetual	Library Trust	CDBG	EDA	
Assets					
Cash and temporary investments	\$ 121,345	\$ 21,727	\$ 150,841	\$ 87,642	\$ 381,555
Receivables					
Interest	43	-	6	253	302
Notes	-	-	64,646	110,804	175,450
Intergovernmental	-	-	44,597	-	44,597
Assets held for resale	-	-	-	19,162	19,162
Total Assets	<u>\$ 121,388</u>	<u>\$ 21,727</u>	<u>\$ 260,090</u>	<u>\$ 217,861</u>	<u>\$ 621,066</u>
Liabilities					
Accounts payable	\$ -	\$ -	\$ 214,271	\$ 87	\$ 214,358
Accrued salaries payable	-	-	-	2,738	2,738
Total Liabilities	<u>-</u>	<u>-</u>	<u>214,271</u>	<u>2,825</u>	<u>217,096</u>
Fund Balances					
Restricted for					
Economic development	-	-	64,646	110,804	175,450
Committed for					
Economic development	-	-	(18,827)	104,232	85,405
Library improvements	-	21,727	-	-	21,727
Assigned for					
Cemetery operations	121,388	-	-	-	121,388
Total Fund Balances	<u>121,388</u>	<u>21,727</u>	<u>45,819</u>	<u>215,036</u>	<u>403,970</u>
Total Liabilities and Fund Balances	<u>\$ 121,388</u>	<u>\$ 21,727</u>	<u>\$ 260,090</u>	<u>\$ 217,861</u>	<u>\$ 621,066</u>

City of Tracy, Minnesota
 Nonmajor Special Revenue Funds
 Combining Statement of Revenues, Expenditures and Changes in Fund Balances
 For the Year Ended December 31, 2021

	657	653	202	655	Total Nonmajor Funds
	Cemetery Perpetual	Library Trust	CDBG	EDA	
Revenues					
Intergovernmental					
Federal grants	\$ -	\$ -	\$ 294,107	\$ -	294,107
Charges for services	12,300	-	-	-	12,300
Investment earnings	(133)	-	1,049	447	1,363
Miscellaneous					
Contributions and donations	-	2,280	-	-	2,280
Refunds and reimbursements	-	-	-	500	500
Other	-	-	14,694	-	14,694
Total Revenues	<u>12,167</u>	<u>2,280</u>	<u>309,850</u>	<u>947</u>	<u>325,244</u>
Expenditures					
Current					
Economic development	-	-	425,465	124,686	550,151
Miscellaneous	858	-	-	-	858
Total Expenditures	<u>858</u>	<u>-</u>	<u>425,465</u>	<u>124,686</u>	<u>551,009</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>11,309</u>	<u>2,280</u>	<u>(115,615)</u>	<u>(123,739)</u>	<u>(225,765)</u>
Other Financing Sources (Uses)					
Sale of capital assets	-	-	-	1,000	1,000
Transfers in	-	-	-	15,500	15,500
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>16,500</u>	<u>16,500</u>
Net Change in Fund Balances	11,309	2,280	(115,615)	(107,239)	(209,265)
Fund Balances, January 1	<u>110,079</u>	<u>19,447</u>	<u>161,434</u>	<u>322,275</u>	<u>613,235</u>
Fund Balances, December 31	<u>\$ 121,388</u>	<u>\$ 21,727</u>	<u>\$ 45,819</u>	<u>\$ 215,036</u>	<u>\$ 403,970</u>

City of Tracy, Minnesota
Cemetery Operating
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended December 31, 2021
 (With Comparative Actual Amounts for Year Ended December 31, 2020)

	2021				2020
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
Revenues					
Charges for services	\$ 1,763	\$ 1,763	\$ 12,300	\$ 10,537	\$ 1,525
Investment earnings	-	-	(133)	(133)	621
Miscellaneous					
Refunds and reimbursements	-	-	-	-	3,925
Total Revenues	<u>1,763</u>	<u>1,763</u>	<u>12,167</u>	<u>10,404</u>	<u>6,071</u>
Expenditures					
Current					
Miscellaneous	<u>5,000</u>	<u>5,000</u>	<u>858</u>	<u>4,142</u>	<u>25,583</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(3,237)</u>	<u>(3,237)</u>	<u>11,309</u>	<u>14,546</u>	<u>(19,512)</u>
Other Financing Sources (Uses)					
Sale of capital asset	-	-	-	-	3,555
Transfer in	-	-	-	-	70,393
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>73,948</u>
Net Change in Fund Balances	(3,237)	(3,237)	11,309	14,546	54,436
Fund Balance, January 1	<u>110,079</u>	<u>110,079</u>	<u>110,079</u>	<u>-</u>	<u>55,643</u>
Fund Balance, December 31	<u>\$ 106,842</u>	<u>\$ 106,842</u>	<u>\$ 121,388</u>	<u>\$ 14,546</u>	<u>\$ 110,079</u>

City of Tracy, Minnesota
CDBG Grant
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended December 31, 2021
(With Comparative Actual Amounts for Year Ended December 31, 2020)

	2021				2020
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
Revenues					
Intergovernmental	\$ 354,200	\$ 354,200	\$ 294,107	\$ (60,093)	\$ 119,050
Investment earnings	-	-	1,049	1,049	633
Other	-	-	14,694	14,694	3,344
Total Revenues	<u>354,200</u>	<u>354,200</u>	<u>309,850</u>	<u>(44,350)</u>	<u>123,027</u>
Expenditures					
Current					
Economic development	<u>423,000</u>	<u>423,000</u>	<u>425,465</u>	<u>(2,465)</u>	<u>120,207</u>
Net Change in Fund Balances	(68,800)	(68,800)	(115,615)	(46,815)	2,820
Fund Balance, January 1	<u>161,434</u>	<u>161,434</u>	<u>161,434</u>	-	<u>158,614</u>
Fund Balance, December 31	<u>\$ 92,634</u>	<u>\$ 92,634</u>	<u>\$ 45,819</u>	<u>\$ (46,815)</u>	<u>\$ 161,434</u>

City of Tracy, Minnesota
 Economic Development
 Schedule of Revenues, Expenditures and Changes in Fund Balance
 Budget and Actual
 For the Year Ended December 31, 2021
 (With Comparative Actual Amounts for Year Ended December 31, 2020)

	2021				2020
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
Revenues					
Investment earnings	\$ -	\$ -	\$ 447	\$ 447	\$ 162
Miscellaneous					
Refunds and reimbursements	-	-	500	500	758
Loan payments received	-	-	-	-	1,176
Total Revenues	<u>-</u>	<u>-</u>	<u>947</u>	<u>947</u>	<u>2,096</u>
Expenditures					
Current					
Economic development	161,837	161,837	124,686	37,151	82,171
Capital outlay					
Economic development	-	-	-	-	13,139
Total Expenditures	<u>161,837</u>	<u>161,837</u>	<u>124,686</u>	<u>37,151</u>	<u>95,310</u>
Deficiency of Revenues Over (Under) Expenditures	<u>(161,837)</u>	<u>(161,837)</u>	<u>(123,739)</u>	<u>38,098</u>	<u>(93,214)</u>
Other Financing Sources (Uses)					
Loan proceeds	25,660	25,660	-	(25,660)	-
Sale of capital asset	50,000	50,000	1,000	(49,000)	-
Transfer in	15,500	15,500	15,500	-	-
Total Other Financing Sources (Uses)	<u>91,160</u>	<u>91,160</u>	<u>16,500</u>	<u>(74,660)</u>	<u>-</u>
Net Change in Fund Balances	(70,677)	(70,677)	(107,239)	(36,562)	(93,214)
Fund Balance, January 1	<u>322,275</u>	<u>322,275</u>	<u>322,275</u>	<u>-</u>	<u>415,489</u>
Fund Balance, December 31	<u>\$ 251,598</u>	<u>\$ 251,598</u>	<u>\$ 215,036</u>	<u>\$ (36,562)</u>	<u>\$ 322,275</u>

City of Tracy, Minnesota
 Nonmajor Capital Projects Funds
 Combining Balance Sheet
 December 31, 2021

	400	652	
	<u>Capital Projects</u>	<u>Hospital Fund</u>	<u>Total Nonmajor Funds</u>
Assets			
Cash and temporary investments	\$ 270,327	\$ 730,555	\$ 1,000,882
Receivables			
Accounts	1,480	-	1,480
Interest	-	128	128
	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u><u>\$ 271,807</u></u>	<u><u>\$ 730,683</u></u>	<u><u>\$ 1,002,490</u></u>
Liabilities			
Accounts payable	<u>\$ 195</u>	<u>\$ -</u>	<u>\$ 195</u>
Fund Balances			
Restricted for			
Capital outlay	5,000	-	5,000
Future capital improvements to the hospital facilities	-	730,683	730,683
Assigned for			
Capital outlay	<u>266,612</u>	<u>-</u>	<u>266,612</u>
Total Fund Balances	<u><u>271,612</u></u>	<u><u>730,683</u></u>	<u><u>1,002,295</u></u>
	<u> </u>	<u> </u>	<u> </u>
Total Liabilities and Fund Balances	<u><u>\$ 271,807</u></u>	<u><u>\$ 730,683</u></u>	<u><u>\$ 1,002,490</u></u>

City of Tracy, Minnesota
 Nonmajor Capital Projects Funds
 Combining Statement of Revenues, Expenditures and
 Changes in Fund Balances
 For the Year Ended December 31, 2021

	400	652	Total
	Capital Projects	Hospital Fund	Nonmajor Funds
Revenues			
Taxes	\$ 42,000	\$ -	\$ 42,000
Intergovernmental	5,000	-	5,000
Investment earnings (loss)	15,012	(927)	14,085
Miscellaneous			
Contributions and donations	26,500	-	26,500
Total Revenues	<u>88,512</u>	<u>(927)</u>	<u>87,585</u>
Expenditures			
Current			
Public safety	1,695	-	1,695
Capital outlay			
Public safety	19,420	-	19,420
Streets and highways	18,155	-	18,155
Culture and recreation	12,382	-	12,382
Miscellaneous	-	154,433	154,433
Total Expenditures	<u>51,652</u>	<u>154,433</u>	<u>206,085</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>36,860</u>	<u>(155,360)</u>	<u>(118,500)</u>
Other Financing Sources (Uses)			
Sale of capital asset	<u>2,500</u>	<u>-</u>	<u>2,500</u>
Net Change in Fund Balances	39,360	(155,360)	(116,000)
Fund Balances, January 1	<u>232,252</u>	<u>886,043</u>	<u>1,118,295</u>
Fund Balances, December 31	<u>\$ 271,612</u>	<u>\$ 730,683</u>	<u>\$ 1,002,295</u>

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City of Tracy, Minnesota
General Fund
Comparative Balance Sheet
December 31, 2021 and 2020

	2021	2020
Assets		
Cash and temporary investments	\$ 724,721	\$ 654,549
Receivables		
Interest	288	3,290
Delinquent taxes	57,130	67,043
Accounts	15,404	16,857
Special assessments	10,065	25,643
Intergovernmental	8,895	5,761
Due from other funds	-	28,534
Prepaid items	26,402	23,794
 Total Assets	 \$ 842,905	 \$ 825,471
Liabilities		
Accounts payable	\$ 33,174	\$ 30,125
Accrued salaries payable	66,971	49,034
Due to other governments	1,655	-
Unearned revenue	5,987	-
Total Liabilities	107,787	79,159
Deferred Inflows of Resources		
Unavailable revenue - property taxes	57,130	67,043
Unavailable revenue - special assessment	10,065	25,643
Total Deferred Inflows of Resources	67,195	92,686
Fund Balances		
Nonspendable	26,402	23,794
Unassigned	641,521	629,832
Total Fund Balances	667,923	653,626
 Total Liabilities, Deferred Inflows of Resources and Fund Balances	 \$ 842,905	 \$ 825,471

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City of Tracy, Minnesota
 General Fund
 Schedule of Revenues, Expenditures and Changes in Fund Balances -
 Budget and Actual (Continued on the Following Pages)
 For the Year Ended December 31, 2021
 (With Comparative Actual Amounts for Year Ended December 31, 2020)

	2021			Variance with Final Budget	2020
	Budgeted Amounts		Actual Amounts		Actual Amounts
	Original	Final			
Revenues					
Taxes					
Property taxes	\$ 723,973	\$ 723,973	\$ 716,036	\$ (7,937)	\$ 685,579
Franchise fees	30,000	30,000	24,422	(5,578)	26,828
Total taxes	<u>753,973</u>	<u>753,973</u>	<u>740,458</u>	<u>(13,515)</u>	<u>712,407</u>
Special Assessments	<u>32,935</u>	<u>32,935</u>	<u>5,702</u>	<u>(27,233)</u>	<u>3,430</u>
Licenses and permits					
Business	17,900	17,900	22,946	5,046	4,891
Nonbusiness	520	520	281	(239)	11,327
Total licenses and permits	<u>18,420</u>	<u>18,420</u>	<u>23,227</u>	<u>4,807</u>	<u>16,218</u>
Intergovernmental					
Federal					
FEMA grant	-	-	15,234	15,234	-
Coronavirus Relief Fund	-	-	-	-	159,694
Total federal	<u>-</u>	<u>-</u>	<u>15,234</u>	<u>15,234</u>	<u>159,694</u>
State					
Local government aid	963,905	963,905	963,905	-	952,745
Fire aid	27,100	27,100	27,799	699	27,163
Police aid	18,900	18,900	27,578	8,678	22,666
Other state aids	15,000	39,717	62,970	23,253	28,533
Total state	<u>1,024,905</u>	<u>1,049,622</u>	<u>1,082,252</u>	<u>32,630</u>	<u>1,031,107</u>
Local					
Other local aid	<u>-</u>	<u>-</u>	<u>16,411</u>	<u>16,411</u>	<u>-</u>
Total intergovernmental	<u>1,024,905</u>	<u>1,049,622</u>	<u>1,113,897</u>	<u>64,275</u>	<u>1,190,801</u>
Charges for services					
General government	1,200	1,200	1,084	(116)	360
Public safety	92,320	92,320	87,068	(5,252)	79,515
Streets and highways	14,592	14,592	1,628	(12,964)	8,573
Culture and recreation	56,761	70,684	67,241	(3,443)	11,452
Airport	-	-	-	-	9,568
Rents	-	-	-	-	42,964
Other	25,437	25,437	75,637	50,200	-
Total charges for services	<u>190,310</u>	<u>204,233</u>	<u>232,658</u>	<u>28,425</u>	<u>152,432</u>
Fines and forfeits	<u>8,043</u>	<u>8,043</u>	<u>4,986</u>	<u>(3,057)</u>	<u>10,079</u>
Investment earnings (loss)	<u>47,679</u>	<u>47,679</u>	<u>(760)</u>	<u>(48,439)</u>	<u>2,545</u>
Miscellaneous					
Contributions and donations	2,850	2,850	8,408	5,558	-
Other	-	-	68	68	4,968
Refunds and reimbursements	-	-	-	-	64,356
Total miscellaneous	<u>2,850</u>	<u>2,850</u>	<u>8,476</u>	<u>5,626</u>	<u>69,324</u>
Total Revenues	<u>2,079,115</u>	<u>2,117,755</u>	<u>2,128,644</u>	<u>10,889</u>	<u>2,157,236</u>

City of Tracy, Minnesota
 General Fund
 Schedule of Revenues, Expenditures and Changes in Fund Balances -
 Budget and Actual (Continued)
 For the Year Ended December 31, 2021
 (With Comparative Actual Amounts for Year Ended December 31, 2020)

	2021				2020
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Budget			
Expenditures					
Current					
General government					
Mayor					
Personal services	\$ 22,101	\$ 22,101	\$ 24,856	\$ (2,755)	\$ 15,672
Supplies	200	200	-	200	428
Other services and charges	1,000	1,000	5,130	(4,130)	205
Total Mayor	<u>23,301</u>	<u>23,301</u>	<u>29,986</u>	<u>(6,685)</u>	<u>16,305</u>
Administration					
Personal services	425,692	427,316	402,547	24,769	247,804
Supplies	10,000	12,628	11,969	659	5,704
Other services and charges	214,295	214,295	238,063	(23,768)	50,693
Total administration	<u>649,987</u>	<u>654,239</u>	<u>652,579</u>	<u>1,660</u>	<u>304,201</u>
Election					
Personal services	-	-	-	-	2,812
Other services and charges	-	-	-	-	672
Total election	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,484</u>
Municipal building					
Personal services	80,119	80,119	63,730	16,389	72,804
Supplies	9,000	9,000	4,376	4,624	-
Other services and charges	47,927	47,927	35,125	12,802	116,620
Total municipal building	<u>137,046</u>	<u>137,046</u>	<u>103,231</u>	<u>33,815</u>	<u>189,424</u>
Planning and zoning					
Personal services	-	-	-	-	-
Other services and charges	9,000	9,000	7,245	1,755	-
Total planning and zoning	<u>9,000</u>	<u>9,000</u>	<u>7,245</u>	<u>1,755</u>	<u>-</u>
Recording and Reporting					
Other services and charges	2,000	2,000	248	1,752	-
Assessing					
Other services and charges	-	-	13,587	(13,587)	13,692
Legal					
Other services and charges	-	-	-	-	15,169
Total general government	<u>821,334</u>	<u>825,586</u>	<u>806,876</u>	<u>18,710</u>	<u>542,275</u>
Public safety					
Police					
Personal services	362,893	362,893	361,847	1,046	341,771
Supplies	19,500	19,500	17,180	2,320	4,022
Other services and charges	16,300	16,300	12,755	3,545	38,335
Total police	<u>398,693</u>	<u>398,693</u>	<u>391,782</u>	<u>6,911</u>	<u>384,128</u>
Fire					
Personal services	109,897	109,897	105,555	4,342	61,191
Supplies	21,400	21,400	23,979	(2,579)	1,529
Other services and charges	28,253	28,253	29,176	(923)	89,698
Total fire	<u>159,550</u>	<u>159,550</u>	<u>158,710</u>	<u>840</u>	<u>152,418</u>

City of Tracy, Minnesota
 General Fund
 Schedule of Revenues, Expenditures and Changes in Fund Balances -
 Budget and Actual (Continued)
 For the Year Ended December 31, 2021
 (With Comparative Actual Amounts for Year Ended December 31, 2020)

	2021			Variance with Final Budget	2020
	Budgeted Amounts		Actual		Actual
	Original	Budget	Amounts		Amounts
Expenditures (Continued)					
Current (Continued)					
Ambulance					
Other services and charges	\$ 1,500	\$ 1,500	\$ 293	\$ 1,207	\$ -
Building inspection					
Personal services	-	-	1,317	(1,317)	30,487
Supplies	1,800	1,800	270	1,530	110
Other services and charges	2,250	2,250	783	1,467	4,659
Total building inspection	4,050	4,050	2,370	1,680	35,256
Civil defense					
Supplies	-	-	396	(396)	3
Other services and charges	500	500	(232)	732	554
Total civil defense	500	500	164	336	557
Code Enforcement					
Supplies	1,500	1,500	-	1,500	-
Other services and charges	1,500	1,500	293	1,207	-
Total civil defense	3,000	3,000	293	2,707	-
Total public safety	565,793	565,793	553,319	12,474	572,359
Expenditures (Continued)					
Current (continued)					
Streets and highways					
Street maintenance					
Personal services	432,621	411,307	367,772	43,535	343,353
Supplies	68,328	84,390	82,389	2,001	1,598
Other services and charges	394,017	374,677	368,086	6,591	129,211
Total street maintenance	894,966	870,374	818,247	52,127	474,162
Snow removal					
Personal services	-	-	-	-	-
Supplies	5,000	5,000	7,465	(2,465)	-
Other services and charges and charges	-	9,000	1,740	7,260	-
Total snow removal	5,000	14,000	9,205	4,795	-
Street lighting					
Other services and charges	24,818	24,818	37,215	(12,397)	28,843
Total streets and highways	924,784	909,192	864,667	44,525	503,005
Culture and recreation					
Parks and recreation					
Supplies	6,657	21,154	31,828	(10,674)	-
Other services and charges	3,080	3,080	9,466	(6,386)	-
Total parks and recreation	9,737	24,234	41,294	(17,060)	-
Library					
Personal services	89,807	89,807	87,264	2,543	92,819
Supplies	2,700	3,422	3,603	(181)	1,824
Other services and charges	18,363	18,363	18,510	(147)	47,188
Total library	110,870	111,592	109,377	2,215	141,831

City of Tracy, Minnesota
General Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances -
Budget and Actual (Continued)
For the Year Ended December 31, 2021
(With Comparative Actual Amounts for Year Ended December 31, 2020)

	2021				2020
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Budget			
Expenditures (Continued)					
Current (Continued)					
Multipurpose Center					
Personal services	\$ 7,048	\$ 7,048	\$ 9,055	\$ (2,007)	\$ -
Supplies	-	514	1,922	(1,408)	-
Other services and charges	-	-	8,844	(8,844)	-
Total multipurpose center	<u>7,048</u>	<u>7,562</u>	<u>19,821</u>	<u>(12,259)</u>	<u>-</u>
Aquatic Center					
Personal services	70,815	70,815	62,751	8,064	-
Supplies	45,200	49,439	65,890	(16,451)	-
Other services and charges	8,383	12,383	27,077	(14,694)	-
Total aquatic center	<u>124,398</u>	<u>132,637</u>	<u>155,718</u>	<u>(23,081)</u>	<u>-</u>
Total culture and recreation	<u>252,053</u>	<u>276,025</u>	<u>326,210</u>	<u>(50,185)</u>	<u>141,831</u>
Economic development					
Personal services	-	-	-	-	89,613
Supplies	-	-	-	-	4,544
Other services and charges	-	8,000	7,379	621	136,575
Total economic development	<u>-</u>	<u>8,000</u>	<u>7,379</u>	<u>621</u>	<u>230,732</u>
Miscellaneous					
Airport					
Personal services	-	-	-	-	9,234
Other services and charges	-	-	-	-	21,713
Total airport	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>30,947</u>
Unallocated					
Personal services	-	-	-	-	3,386
Other services and charges	-	-	-	-	133,876
Total unallocated	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>137,262</u>
Total miscellaneous	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>168,209</u>
Total current	<u>2,563,964</u>	<u>2,584,596</u>	<u>2,558,451</u>	<u>26,145</u>	<u>2,158,411</u>
Expenditures					
Capital outlay					
Public safety	-	-	-	-	5,101
Culture and recreation	4,566	17,560	4,566	12,994	-
Total capital outlay	<u>4,566</u>	<u>17,560</u>	<u>4,566</u>	<u>12,994</u>	<u>5,101</u>
Debt service					
Principal	53,955	53,955	49,240	4,715	47,805
Interest and other	-	-	-	-	6,000
Total debt service	<u>53,955</u>	<u>53,955</u>	<u>49,240</u>	<u>4,715</u>	<u>53,805</u>
Total Expenditures	<u>2,622,485</u>	<u>2,656,111</u>	<u>2,612,257</u>	<u>43,854</u>	<u>2,217,317</u>

City of Tracy, Minnesota
 General Fund
 Schedule of Revenues, Expenditures and Changes in Fund Balances -
 Budget and Actual (Continued)
 For the Year Ended December 31, 2021
 (With Comparative Actual Amounts for Year Ended December 31, 2020)

	2021				2020
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Budget			
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$ (543,370)	\$ (538,356)	\$ (483,613)	\$ 54,743	\$ (60,081)
Other Financing Sources (Uses)					
Bonds issued	-	-	-	-	-
Sale of capital asset	-	-	-	-	1,500
Transfers in	152,789	148,835	497,910	349,075	27,503
Transfers out	-	-	-	-	(186,043)
Extraordinary items	390,551	390,551	-	(390,551)	-
Total Financing Sources (Uses)	<u>543,340</u>	<u>539,386</u>	<u>497,910</u>	<u>(41,476)</u>	<u>(157,040)</u>
Net Change in Fund Balances	(30)	1,030	14,297	13,267	(217,121)
Fund Balances, January 1	<u>653,626</u>	<u>653,626</u>	<u>653,626</u>	-	<u>870,747</u>
Fund Balances, December 31	<u>\$ 653,596</u>	<u>\$ 654,656</u>	<u>\$ 667,923</u>	<u>\$ 13,267</u>	<u>\$ 653,626</u>

City of Tracy, Minnesota
Debt Service Funds
Combining Balance Sheet
December 31, 2021

	304	305	306	307
	2014 G.O. Bond	2015 G.O. Refunding Bond	2016B G.O. Refunding Bond	2016D G.O. Bonds
Assets				
Cash and temporary investments	\$ 153,581	\$ 242,179	\$ 281,909	\$ (503)
Receivables				
Interest	-	194	316	526
Special assessments	170,722	20,563	-	-
Intergovernmental	238	114	-	-
	<u>324,541</u>	<u>263,050</u>	<u>282,225</u>	<u>23</u>
Total Assets	<u>\$ 324,541</u>	<u>\$ 263,050</u>	<u>\$ 282,225</u>	<u>\$ 23</u>
Liabilities				
Accounts payable	\$ -	\$ -	\$ -	\$ 5,000
Deferred Inflows of Resources				
Unavailable revenue - special assessments	170,722	20,563	-	-
Fund Balances				
Restricted for debt service	<u>153,819</u>	<u>242,487</u>	<u>282,225</u>	<u>(4,977)</u>
	<u>324,541</u>	<u>263,050</u>	<u>282,225</u>	<u>23</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 324,541</u>	<u>\$ 263,050</u>	<u>\$ 282,225</u>	<u>\$ 23</u>

309 2019B Ineligible Phase 3 improvements	312 2019E G.O. Bond	Totals
\$ 355,214	\$ 155,801	\$ 1,188,181
1,571	112	2,719
764,420	36,920	992,625
2,702	1,017	4,071
<u>\$ 1,123,907</u>	<u>\$ 193,850</u>	<u>\$ 2,187,596</u>
\$ -	\$ -	\$ 5,000
764,420	36,920	992,625
<u>359,487</u>	<u>156,930</u>	<u>1,189,971</u>
<u>\$ 1,123,907</u>	<u>\$ 193,850</u>	<u>\$ 2,187,596</u>

City of Tracy, Minnesota
Debt Service Funds
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended December 31, 2021

	304	305	306	307
	2014 G.O. Bond	2015 G.O. Refunding Bond	2016B G.O. Refunding Bond	2016D G.O. Bonds
Revenues				
Taxes				
Property taxes	\$ 97,087	\$ 132,814	\$ 113,800	\$ 45,336
Special assessments	23,691	21,363	-	-
Investment earnings (loss)	(171)	(276)	(319)	(2)
Total Revenues	<u>120,607</u>	<u>153,901</u>	<u>113,481</u>	<u>45,334</u>
Expenditures				
Debt service				
Principal	90,000	125,000	110,000	35,000
Interest and other	31,464	29,459	3,518	15,311
Total Expenditures	<u>121,464</u>	<u>154,459</u>	<u>113,518</u>	<u>50,311</u>
Net Change in Fund Balances	(857)	(558)	(37)	(4,977)
Fund Balances, January 1	<u>154,676</u>	<u>243,045</u>	<u>282,262</u>	<u>-</u>
Fund Balances, December 31	<u>\$ 153,819</u>	<u>\$ 242,487</u>	<u>\$ 282,225</u>	<u>\$ (4,977)</u>

309 2019B Ineligible Phase 3 Improvements	312 2019E G.O. Bond	Totals
\$ -	\$ 102,608	\$ 491,645
108,084	15,917	169,055
(286)	(167)	(1,221)
<u>107,798</u>	<u>118,358</u>	<u>659,479</u>
-	93,000	453,000
-	9,616	89,368
<u>-</u>	<u>102,616</u>	<u>542,368</u>
107,798	15,742	117,111
<u>251,689</u>	<u>141,188</u>	<u>1,072,860</u>
<u>\$ 359,487</u>	<u>\$ 156,930</u>	<u>\$ 1,189,971</u>

City of Tracy, Minnesota
 Summary Financial Report
 Revenues and Expenditures for General Operations -
 Governmental Funds
 For the Years Ended December 31, 2021 and 2020

	Total		Percent Increase (Decrease)
	2021	2020	
Revenues			
Taxes	\$ 1,274,103	\$ 1,263,904	0.81 %
Special assessments	174,757	96,869	80.41
Licenses and permits	23,227	16,218	43.22
Intergovernmental	1,824,457	1,330,807	37.09
Charges for services	285,015	179,800	58.52
Fines and forfeits	4,986	10,079	(50.53)
Investment earnings	10,673	49,065	(78.25)
Miscellaneous	52,450	213,200	(75.40)
Total Revenues	<u>\$ 3,649,668</u>	<u>\$ 3,159,942</u>	15.50 %
Per Capita	<u>\$ 1,758</u>	<u>\$ 1,493</u>	17.72 %
Expenditures			
Current			
General government	\$ 806,876	\$ 542,275	48.79 %
Public safety	555,014	600,739	(7.61)
Streets and highways	864,667	503,005	71.90
Culture and recreation	326,210	193,602	68.50
Economic development	557,530	433,110	28.73
Miscellaneous	858	193,792	(99.56)
Capital outlay			
Public safety	19,420	7,174	170.70
Streets and highways	1,166,306	1,687,925	(30.90)
Culture and recreation	16,948	-	100.00
Economic development	-	13,139	(100.00)
Miscellaneous	571,524	274,624	108.11
Debt service			
Principal	502,240	476,501	5.40
Interest and other charges	242,887	291,300	(16.62)
Total Expenditures	<u>\$ 5,630,480</u>	<u>\$ 5,217,186</u>	7.92 %
Per Capita	<u>\$ 2,712</u>	<u>\$ 2,466</u>	10.00 %
Total Long-term Indebtedness	\$ 8,260,000	\$ 8,713,000	(5.20) %
Per Capita	3,979	4,118	(3.37)
General Fund Balance - December 31	\$ 667,923	\$ 653,626	2.19 %
Per Capita	322	309	4.16

The purpose of this report is to provide a summary of financial information concerning the City of Tracy to interested citizens. The complete financial statements may be examined at City Hall, 336 Morgan St., Tracy, Minnesota. Questions about this report should be directed to Erik Hansen, City Administrator at (507) 629-5528.

OTHER REQUIRED REPORTS AND
FEDERAL FINANCIAL AWARD PROGRAMS

CITY OF TRACY
TRACY, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2021

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

Honorable Mayor and City Council
City of Tracy, 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 the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Tracy, Minnesota (the City) as of and for the year ended December 31, 2021, and the related notes to the financial statements, and have issued our report thereon dated June 21, 2022.

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 miscellaneous provisions sections of the Minnesota Legal Compliance Audit Guide for Cities, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, except as described in the Schedule of Findings and Responses as items 2021-004. 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.



Abdo
Mankato, Minnesota
June 21, 2022

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 Tracy, Minnesota

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 financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Tracy, Minnesota (the City), as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 21, 2022.

Report on Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the 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. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as item 2021-003.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2021-001 and 2021-002 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2021-004.

The City's Responses 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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Abdo
Mankato, Minnesota
June 21, 2022



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Honorable Mayor and City Council
City of Tracy, Minnesota

Report on Compliance for Each Major Federal Program

We have audited the City of Tracy, Minnesota (the City) compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2021. The City's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings, Responses and Questioned Costs.

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2021.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with 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 opinion on compliance for each major federal program. Our audit does not provide a legal determination of the City's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to City's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the City's compliance based on our audit. 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, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the City's compliance with the requirements of each major federal program as a whole.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 City's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the City's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Abdo
Mankato, Minnesota
June 21, 2022



City of Tracy, Minnesota
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2021

Federal Funding Source	Administering Department	Program Name	Federal Domestic Assistance Number	Pass-Through Entity Identifying Number	Federal Program Clusters	Total Federal Expenditures
U.S. Department of Agriculture	Rural Utilities Service	Water and Waste Disposal Systems for Rural Communities	10.760		<u>\$ 2,772,226</u>	
		Total Water and Waste Program Cluster				\$ 2,772,226
U.S. Department of Agriculture	Forest Service	Cooperative Forestry Assistance	10.760	R29G3020153		5,000
U.S. Department of Housing and Urban Development	Minnesota Department of Trade and Economic Development	Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	B22CDBGCG19		294,107
U.S. Department of Transportation	Federal Aviation Administration	Airport Improvement Program	20.106	TMNFAA01020917 TMNFAA01021321		155,098
U.S. Department of Treasury	Minnesota Department of Revenue	COVID-19 Coronavirus Relief Fund	21.019C			14,731
U.S. Department of Homeland Security	Minnesota Department of Public Safety	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	P07204442PA P07204390PA		15,234
Total Federal Expenditures						<u><u>\$ 3,256,396</u></u>

City of Tracy, Minnesota
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2021

Note 1: Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Tracy, Minnesota, (the City) for the year ended December 31, 2021. The City's reporting entity is defined in Note 1A to the City's financial statements. The information in this schedule is presented in accordance with the requirement of the Uniform Guidance, Audits of States, Local Governments, and Non-Profit Organizations. All Federal awards received directly from Federal agencies as well as Federal awards passed through other government agencies are included on the schedule.

Note 2: Summary of Significant Accounting Policies for Expenditures

Expenditures reported on this schedule are reported on the accrual basis of accounting.

Note 3: Pass-through Entity Identifying Numbers

Pass-through entity identifying numbers, if any, are presented where available.

Note 4: Subrecipients

No federal expenditures presented in this schedule were provided to subrecipients.

Note 5: Indirect Cost Rate

During the year ended December 31, 2021 the City did not elect to use the 10% de minimis indirect cost rate.

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City of Tracy, Minnesota
 Schedule of Findings, Responses and Questioned Costs
 For the Year Ended December 31, 2021

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued	Unmodified
Internal control over financial reporting	
Material weaknesses identified?	Yes
Significant deficiencies identified not considered to be material weaknesses?	Yes
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs	
Material weaknesses identified?	No
Significant deficiencies identified not considered to be material weaknesses?	None reported
Type of auditor's report issued on compliance for major programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2CFR section 200.516(a).	Yes

Identification of Major Programs/Projects

CFDA No.

U.S. Department of Agriculture	
Water and Waste Program Cluster	
Water and Waste Disposal Systems for Rural Communities	10.760
Dollar threshold used to distinguish between Type A and Type B Programs	\$ 750,000
Auditee qualified as low-risk auditee?	No

Section II - Financial Statement Findings

One significant deficiency (findings 2021-001) and one material weakness (finding 2021-002) relating to the audit of the financial statements are reported in the Report on Internal Control and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.

Section III - Major Federal Award Findings and Questioned Costs

There are no significant deficiencies or material weaknesses that required to be reported in accordance with Uniform Guidance.

Section IV - Schedule of Prior Year Audit Findings

There were prior year audit findings that are attached.

City of Tracy, Minnesota
Schedule of Findings, Responses and Questioned Costs (Continued)
For the Year Ended December 31, 2021

<u>Finding</u>	<u>Description</u>
2021-001	Segregation of Duties
Condition:	During our audit we reviewed internal control procedures over utility billing and offsite cash and inventory within the Liquor Store. We found the City to have limited segregation of duties in these areas as noted below.
Criteria:	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.
Effect:	The existence of this limited segregation of duties increases the risk of fraud and misstatement.

Internal Control Over Utility Billing Transactions

Cause: The Finance Clerk is involved with setting up and maintaining customers and rates, entering meter readings, generating billing statements, mailing billing statements, making adjustments to accounts and maintaining the utility billing subledger. The Accounting Clerk opens mail and prepares the deposit.

Recommendation: We recommend that an individual, separate from the accounting clerk such as the separate accounting clerk review adjustment reports and sign off on a monthly basis. It is important that the Council is aware of this condition and monitor all financial information.

Management Response:

The City has already taken measures to attempt to comply even though the City is relatively small and the number of clerical/bookkeeping staff we can employ is limited. The City will consider the above recommendations and continue to make changes to our internal controls where feasible.

Internal Control Over Offsite Cash – Liquor Store

Cause: The liquor store manager prepares the deposits, prepares and approves daily sales sheets, initiates and receives purchases, and maintains the inventory program. The Finance Director takes deposits to the bank and ties out monthly sales.

Recommendation: We recommend that certain processes, such as preparing deposits, taking deposits to the bank, maintaining inventory program and receives inventory, be separated between employees. It is important that the Council is aware of this condition and monitor all financial information.

Management Response:

The City has already taken measures to attempt to comply even though the City is relatively small and the number of clerical/bookkeeping staff we can employ is limited. The City will consider the above recommendations and continue to make changes to our internal controls where feasible.

City of Tracy, Minnesota
Schedule of Findings, Responses and Questioned Costs (Continued)
For the Year Ended December 31, 2021

<u>Finding</u>	<u>Description</u>
2021-002	Material Audit Adjustments
<i>Condition:</i>	During our audit, adjustments were needed for adjusting grants and accounts payables.
<i>Criteria:</i>	The financial statements are the responsibility of the City's management.
<i>Cause:</i>	The year-end trial balance and supporting work papers did not reflect all necessary accounting entries.
<i>Effect:</i>	It is likely that if a misstatement were to occur, it would not be detected by the City's system of internal control. The audit firm cannot serve as a compensating control over this deficiency.
<i>Recommendation:</i>	We recommend that the City staff review each journal entry and their financial statements during closing procedures to ensure all adjustments are appropriate to fairly state the City's financial statements in accordance with generally accepted accounting principles.
<i>Management Response:</i>	
	The City will continue to improve our processes to ensure no audit adjustments are needed in the future.
<i>Updated Progress from Prior Year:</i>	
	Management and staff have been working with the auditors to ensure workpapers and account balances are appropriately stated as of year-end. We believe that management has the skills, knowledge, and experience to accurately make adjustments as of year-end moving forward.
2021-003	Deposit of State Aid
<i>Condition:</i>	During our audit, we determined that the City did not within 30 days after receipt, transmit the fire state aid to the treasurer of the duly incorporated firefighters' relief association.
<i>Criteria:</i>	Under Minnesota statute §69.031, "The municipal treasurer shall, within 30 days after receipt, transmit the fire state aid to the treasurer of the duly incorporated firefighters' relief association if the association has filed a financial report with the municipality. If the relief association has not filed a financial report with the municipality, the municipal treasurer shall delay transmission of the fire state aid to the relief association until the complete financial report is filed."
<i>Cause:</i>	The City did not transmit the fire state aid within 30 days of receipt.
<i>Effect:</i>	The City is not in compliance with Minnesota statute §69.031.
<i>Recommendation:</i>	We recommend that the City ensure fire state aid amounts are transmitted to the treasurer of the firefighters' relief association within 30 days of receipt.
<i>Management Response:</i>	
	The City is aware of the situation and plans to monitor more closely in the future.



336 MORGAN STREET
TRACY, MN 56175
PHONE (507) 629-5528
FAX (507) 629-5530

2021-001 Segregation of Duties

Corrective Action Plan (CAP):

1. Explanation of Disagreements with Audit Finding:

There is no disagreement with the audit finding.

2. Actions Planned in Response to Finding:

The City has already taken measures to attempt to comply even though the City is relatively small and the number of clerical/bookkeeping staff we can employ is limited. The City will consider the recommendations from the auditor and continue to make changes to our internal controls where feasible.

3. Official Responsible for Ensuring CAP:

Erik Hansen, City Administrator, is the official responsible for ensuring corrective action of the deficiency.

4. Planned Completion Date for CAP:

Continual.

5. Plan to Monitor Completion of CAP:

The Council will be monitoring this corrective action plan.

Sincerely,

Erik Hansen
City Administrator



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TRACY, MN 56175
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2021-002 Material Audit Adjustments

Corrective Action Plan (CAP):

1. Explanation of Disagreements with Audit Finding:

There is no disagreement with the audit finding.

2. Actions Planned in Response to Finding:

The City will continue to improve our processes to ensure no audit adjustments are needed in the future.

3. Official Responsible for Ensuring CAP:

Erik Hansen, City Administrator, is the official responsible for ensuring corrective action of the deficiency.

4. Planned Completion Date for CAP:

Continual.

5. Plan to Monitor Completion of CAP:

The Council will be monitoring this corrective action plan.

Sincerely,

Erik Hansen
City Administrator

City of Tracy, Minnesota
Schedule Prior Year Findings
For the Year Ended December 31, 2021

<u>Finding</u>	<u>Description</u>
2020-001	Segregation of Duties
<i>Condition:</i>	During our audit we reviewed internal control procedures over payroll, disbursements, cash receipts, utility billing and investments and found the City to have limited segregation of duties in these areas as noted below.
<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>Effect:</i>	The existence of this limited segregation of duties increases the risk of fraud and misstatement.

Internal Control Over Disbursements

<i>Cause:</i>	Both accounting clerks are involved with setting up and maintaining vendors and the check preparation process.
<i>Recommendation:</i>	We recommend that certain processes, such as maintaining payable records and posting to the general ledger, be separated between the accounting clerks. It is important that the Council is aware of this condition and monitor all financial information.

Management Response:

The City has already taken measures to attempt to comply even though the City is relatively small and the number of clerical/bookkeeping staff they can employ is limited. The City has hired additional staff and will reallocate current tasks to have better controls in place starting in 2021.

Internal Control Over Cash Receipts

<i>Cause:</i>	Both accounting clerks are involved with setting up and maintaining vendors and the check endorsing process.
<i>Recommendation:</i>	We recommend that certain processes, such as maintaining the receipts journal and posting to the general ledger, be separated between the accounting clerks. It is important that the Council is aware of this condition and monitor all financial information.

Management Response:

The City has already taken measures to attempt to comply even though the City is relatively small and the number of clerical/bookkeeping staff they can employ is limited. The City has hired additional staff and will reallocate current tasks to have better controls in place starting in 2021.

City of Tracy, Minnesota
Schedule Prior Year Findings (Continued)
For the Year Ended December 31, 2021

<u>Finding</u>	<u>Description</u>
2020-001	Segregation of Duties (Continued)
<u>Internal Control Over Utility Billing Transactions</u>	
<i>Cause:</i>	The accounting clerks are involved with setting up and maintaining customers and rates, entering meter readings, generating billing statements, mailing billing statements, opening mail and preparing the deposit, making adjustments to accounts and maintaining the utility billing subledger.
<i>Recommendation:</i>	We recommend that an individual, separate from the accounting clerk such as the separate accounting clerk review adjustment reports and sign off on a monthly basis. It is important that the Council is aware of this condition and monitor all financial information.

Management Response:

The City has already taken measures to attempt to comply even though the City is relatively small and the number of clerical/bookkeeping staff they can employ is limited. The City has hired additional staff and will reallocate current tasks to have better controls in place starting in 2021.

Internal Control Over Offsite Cash – Liquor Store

<i>Cause:</i>	The liquor store manager prepares the deposits, takes deposits to the bank, prepares and approves daily sales sheets, initiates and receives purchases, and maintains the inventory program.
<i>Recommendation:</i>	We recommend that certain processes, such as preparing deposits, taking deposits to the bank, maintaining inventory program and receives inventory, be separated between employees. It is important that the Council is aware of this condition and monitor all financial information.

Management Response:

The City has already taken measures to attempt to comply even though the City is relatively small and the number of clerical/bookkeeping staff they can employ is limited. The City has hired additional staff and will reallocate current tasks to have better controls in place starting in 2021.

City of Tracy, Minnesota
Schedule Prior Year Findings (Continued)
For the Year Ended December 31, 2021

<u>Finding</u>	<u>Description</u>
2020-002	Financial Report Preparation
<i>Condition:</i>	We were requested to assist in drafting the audited financial statements and related footnote disclosures as part of our regular audit services. 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 recent 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 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 thoroughly reviews a draft of the financial statements, but does not accept the degree of risk associated with the condition. The City has hired additional staff in 2021. Going forward, the City will not be requesting assistance in drafting the financial statements and related footnote disclosures.
<i>Updated Progress from Prior Year:</i>	
	Finding cleared.

City of Tracy, Minnesota
Schedule Prior Year Findings (Continued)
For the Year Ended December 31, 2021

<u>Finding</u>	<u>Description</u>
2020-003	Material Audit Adjustments
<i>Condition:</i>	During our audit, adjustments were needed for adjusting capital assets, assessments, grants, loans, and accounts payable.
<i>Criteria:</i>	The financial statements are the responsibility of the City's management.
<i>Cause:</i>	City staff has not prepared a year-end trial balance reflecting all necessary accounting entries.
<i>Effect:</i>	It is likely that if a misstatement were to occur, it would not be detected by the City's system of internal control. The audit firm cannot serve as a compensating control over this deficiency.
<i>Recommendation:</i>	We recommend that management review each journal entry, obtain an understanding of why the entry was necessary and modify current procedures to ensure that future corrections are not needed.

Management Response:

Management thoroughly reviews journal entries prepared for the audit and asks questions throughout the year to attempt to eliminate future material adjustments. The City will be getting new accounting software at the beginning of 2021, which will include a new chart of accounts to help eliminate some of the entries. The city has also hired a Finance Director to prepare financial statements and provide the year-end trial balance.

Updated Progress from Prior Year:

The staff will continue to receive training on areas that have material adjustments.