

PRELIMINARY OFFICIAL STATEMENT DATED JANUARY 4, 2024

This Preliminary Official Statement and the information contained herein are subject to completion and amendment. These securities may not be sold nor may offers to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy these securities nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction. This Preliminary Official Statement is in a form deemed final as of its date for purposes of SEC Rule 15c2-12(b) (1), but is subject to revision, amendment and completion in a Final Official Statement.

In the opinion of Taft Stettinius & Hollister LLP, Bond Counsel, based on present federal and Minnesota laws, regulations, rulings and decisions, at the time of the issuance of the Bonds, the interest on the Bonds is excluded from gross income for federal income tax purposes and is excluded, to the same extent, from both gross income and taxable net income for State of Minnesota income tax purposes (other than Minnesota franchise taxes measured by income and imposed on corporations and financial institutions). Interest on the Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals or for purposes of the Minnesota alternative minimum tax applicable to individuals, estates or trusts; however, interest on the Bonds is taken into account in determining "annual adjusted financial statement income" for the purpose of computing the federal alternative minimum tax imposed on certain corporations for tax years beginning after December 31, 2022. No opinion will be expressed by Bond Counsel regarding other state or federal tax consequences. See "TAX EXEMPTION" herein.

The City will designate the Bonds as "qualified tax-exempt obligations" for purposes of Section 265(b)(3) of the Internal Revenue Code of 1986, as amended, relating to the ability of financial institutions to deduct from income for federal income tax purposes, interest expense that is allocable to carrying and acquiring tax-exempt obligations.

New Issue

Non-Rated

CITY OF MAHNOMEN, MINNESOTA (Mahnomen County)

\$635,000* GENERAL OBLIGATION CAPITAL IMPROVEMENT PLAN BONDS, SERIES 2024A

PROPOSAL OPENING: January 16, 2024, 10:00 A.M., C.T. **CONSIDERATION:** January 16, 2024, 5:30 P.M., C.T.

PURPOSE/AUTHORITY/SECURITY: The \$635,000* General Obligation Capital Improvement Plan Bonds, Series 2024A (the "Bonds") are authorized pursuant to Minnesota Statutes, Sections 475.521 and 475.67, and Chapter 475, as amended, by the City of Mahnomen, Minnesota (the "City"), for the purpose of effecting a current refunding of certain outstanding general obligations of the City as more fully described herein. The Bonds will be general obligations of the City for which its full faith and credit and taxing powers are pledged. Delivery is subject to receipt of an approving legal opinion of Taft Stettinius & Hollister LLP, Minneapolis, Minnesota.

DATE OF BONDS: January 29, 2024

MATURITY: February 1 as follows:

<u>Year</u>	<u>Amount*</u>	<u>Year</u>	<u>Amount*</u>	<u>Year</u>	<u>Amount*</u>
2026	\$45,000	2030	\$55,000	2034	\$65,000
2027	50,000	2031	60,000	2035	65,000
2028	50,000	2032	60,000	2036	70,000
2029	55,000	2033	60,000		

***MATURITY ADJUSTMENTS:** The City reserves the right to increase or decrease the principal amount of the Bonds on the day of sale, in increments of \$5,000 each. Increases or decreases may be made in any maturity. If any principal amounts are adjusted, the purchase price proposed will be adjusted to maintain the same gross spread per \$1,000.

TERM BONDS: See "Term Bond Option" herein.

INTEREST: August 1, 2024 and semiannually thereafter.

OPTIONAL REDEMPTION: Bonds maturing on February 1, 2035 and thereafter are subject to call for prior optional redemption on February 1, 2034 or any date thereafter, at a price of par plus accrued interest to the date of optional redemption.

MINIMUM PROPOSAL: \$625,475.

GOOD FAITH DEPOSIT: A good faith deposit in the amount of \$12,700 shall be made by the winning bidder by wire transfer of funds.

PAYING AGENT: Bond Trust Services Corporation.

BOND COUNSEL: Taft Stettinius & Hollister LLP.

MUNICIPAL ADVISOR: Ehlers and Associates, Inc.

BOOK-ENTRY-ONLY: See "Book-Entry-Only System" herein (unless otherwise specified by the purchaser).

REPRESENTATIONS

No dealer, broker, salesperson or other person has been authorized by the City to give any information or to make any representation other than those contained in this Preliminary Official Statement and, if given or made, such other information or representations must not be relied upon as having been authorized by the City. ***This Preliminary Official Statement does not constitute an offer to sell or a solicitation of an offer to buy any of the Bonds in any jurisdiction to any person to whom it is unlawful to make such an offer or solicitation in such jurisdiction.***

This Preliminary Official Statement is not to be construed as a contract with the Underwriter (Syndicate Manager). Statements contained herein which involve estimates or matters of opinion are intended solely as such and are not to be construed as representations of fact. Ehlers and Associates, Inc. prepared this Preliminary Official Statement and any addenda thereto relying on information of the City and other sources for which there is reasonable basis for believing the information is accurate and complete.

Bond Counsel has not participated in the preparation of this Preliminary Official Statement and is not expressing any opinion as to the completeness or accuracy of the information contained therein. Compensation of Ehlers and Associates, Inc., payable entirely by the City, is contingent upon the delivery of the Bonds.

COMPLIANCE WITH S.E.C. RULE 15c2-12

Certain municipal obligations (issued in an aggregate amount over \$1,000,000) are subject to Rule 15c2-12 promulgated by the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, as amended (the "Rule").

Preliminary Official Statement: This Preliminary Official Statement was prepared for the City for dissemination to potential investors. Its primary purpose is to disclose information regarding the Bonds to prospective underwriters in the interest of receiving competitive proposals in accordance with the sale notice contained herein. Unless an addendum is posted prior to the sale, this Preliminary Official Statement shall be deemed nearly final for purposes of the Rule subject to completion, revision and amendment in a Final Official Statement as defined below.

Review Period: This Preliminary Official Statement has been distributed to prospective bidders for review. Comments or requests for the correction of omissions or inaccuracies must be submitted to Ehlers and Associates, Inc. at least two business days prior to the sale. Requests for additional information or corrections in the Preliminary Official Statement received on or before this date will not be considered a qualification of a proposal received from an underwriter. If there are any changes, corrections or additions to the Preliminary Official Statement, interested bidders will be informed by an addendum prior to the sale.

Final Official Statement: Copies of the Final Official Statement will be delivered to the underwriter (Syndicate Manager) within seven business days following the proposal acceptance.

Continuing Disclosure: Subject to certain exemptions, issues in an aggregate amount over \$1,000,000 may be required to comply with provisions of the Rule which require that underwriters obtain from the issuers of municipal securities (or other obligated party) an agreement for the benefit of the owners of the securities to provide continuing disclosure with respect to those securities. This Preliminary Official Statement describes the conditions under which the City is required to comply with the Rule.

CLOSING CERTIFICATES

Upon delivery of the Bonds, the underwriter (Syndicate Manager) will be furnished with the following items: (1) a certificate of the appropriate officials to the effect that at the time of the sale of the Bonds and all times subsequent thereto up to and including the time of the delivery of the Bonds, this Preliminary Official Statement did not and does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; (2) a receipt signed by the appropriate officer evidencing payment for the Bonds; (3) a certificate evidencing the due execution of the Bonds, including statements that (a) no litigation of any nature is pending, or to the knowledge of signers, threatened, restraining or enjoining the issuance and delivery of the Bonds, (b) neither the corporate existence or boundaries of the City nor the title of the signers to their respective offices is being contested, and (c) no authority or proceedings for the issuance of the Bonds have been repealed, revoked or rescinded; and (4) a certificate setting forth facts and expectations of the City which indicates that the City does not expect to use the proceeds of the Bonds in a manner that would cause them to be arbitrage bonds within the meaning of Section 148 of the Internal Revenue Code of 1986, as amended, or within the meaning of applicable Treasury Regulations.

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CITY OF MAHNOMEN CITY COUNCIL

		<u>Term Expires</u>
Julie Hanson	Mayor	January 2025
LuAnn Durant	Council Member	January 2026
Deb McArthur	Council Member	January 2026
Kelly Phillips	Council Member	January 2025
Duane Schouveiller	Council Member	January 2025

ADMINISTRATION

Taylor Guenther, City Administrator
Judy Berger, Assistant City Administrator

PROFESSIONAL SERVICES

Hanson Law Office, City Attorney, Mahnomen, Minnesota
Taft Stettinius & Hollister LLP, Bond Counsel, Minneapolis, Minnesota
Ehlers and Associates, Inc., Municipal Advisors, Roseville, Minnesota
(Other office located in Waukesha, Wisconsin)

INTRODUCTORY STATEMENT

This Preliminary Official Statement contains certain information regarding the City of Mahanomen, Minnesota (the "City") and the issuance of its \$635,000* General Obligation Capital Improvement Plan Bonds, Series 2024A (the "Bonds"). Any descriptions or summaries of the Bonds, statutes, or documents included herein are not intended to be complete and are qualified in their entirety by reference to such statutes and documents and the form of the Bonds to be included in the resolution authorizing the issuance and sale of the Bonds ("Award Resolution") to be adopted by the City Council on January 16, 2024.

Inquiries may be directed to Ehlers and Associates, Inc. ("Ehlers" or the "Municipal Advisor"), Roseville, Minnesota, (651) 697-8500, the City's municipal advisor. A copy of this Preliminary Official Statement may be downloaded from Ehlers' web site at www.ehlers-inc.com by connecting to the Bond Sales link and following the directions at the top of the site.

THE BONDS

GENERAL

The Bonds will be issued in fully registered form as to both principal and interest in denominations of \$5,000 each or any integral multiple thereof, and will be dated, as originally issued, as of January 29, 2024. The Bonds will mature on February 1 in the years and amounts set forth on the cover of this Preliminary Official Statement. Interest will be payable on February 1 and August 1 of each year, commencing August 1, 2024, to the registered owners of the Bonds appearing of record in the bond register as of the close of business on the 15th day (whether or not a business day) of the immediately preceding month. Interest will be computed upon the basis of a 360-day year of twelve 30-day months and will be rounded pursuant to rules of the Municipal Securities Rulemaking Board ("MSRB"). **The rate for any maturity may not be more than 1.00% less than the rate for any preceding maturity. (For example, if a rate of 4.50% is proposed for the 2026 maturity, then the lowest rate that may be proposed for any later maturity is 3.50%.)** All Bonds of the same maturity must bear interest from the date of issue until paid at a single, uniform rate. Each rate must be expressed in an integral multiple of 5/100 or 1/8 of 1%.

Unless otherwise specified by the purchaser, the Bonds will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). (See "Book-Entry-Only System" herein.) As long as the Bonds are held under the book-entry system, beneficial ownership interests in the Bonds may be acquired in book-entry form only, and all payments of principal of, premium, if any, and interest on the Bonds shall be made through the facilities of DTC and its participants. If the book-entry system is terminated, principal of, premium, if any, and interest on the Bonds shall be payable as provided in the Award Resolution.

The City has selected Bond Trust Services Corporation, Roseville, Minnesota ("BTSC"), to act as paying agent (the "Paying Agent"). BTSC and Ehlers are affiliate companies. The City will pay the charges for Paying Agent services. The City reserves the right to remove the Paying Agent and to appoint a successor.

*Preliminary, subject to change.

OPTIONAL REDEMPTION

At the option of the City, the Bonds maturing on or after February 1, 2035 shall be subject to optional redemption prior to maturity on February 1, 2034 or any date thereafter, at a price of par plus accrued interest to the date of optional redemption.

Redemption may be in whole or in part of the Bonds subject to prepayment. If redemption is in part, the selection of the amounts and maturities of the Bonds to be redeemed shall be at the discretion of the City. If only part of the Bonds having a common maturity date are called for redemption, then the City or Paying Agent, if any, will notify DTC of the particular amount of such maturity to be redeemed. DTC will determine by lot the amount of each participant's interest in such maturity to be redeemed and each participant will then select by lot the beneficial ownership interest in such maturity to be redeemed.

Notice of redemption shall be sent by mail not more than 60 days and not less than 30 days prior to the date fixed for redemption to the registered owner of each Bond to be redeemed at the address shown on the registration books.

AUTHORITY; PURPOSE

The Bonds are authorized pursuant to Minnesota Statutes, Section 475.521 and 475.67, and Chapter 475, as amended, by the City, for the purpose of effecting a current refunding of the City's \$1,550,000 General Obligation Temporary Capital Improvement Plan Bonds, Series 2021B (the "Series 2021B Bonds"). The Series 2021B Bonds were issued for the construction of a renovation and expansion to the City's existing Fire Hall described in the City's 5-Year Capital Improvement Plan dated April 19, 2021 in anticipation of the receipt of general tax dollars.

Minnesota Statutes, Section 475.521, adopted by the 2003 Minnesota State Legislature and amended in 2005, allows cities and towns to plan for and finance the acquisition and betterment of public lands, buildings, and certain other improvements within the municipality, including financing the construction of city halls, town halls, libraries, public safety, and public works facilities. Annual principal and interest payments on general obligation capital improvement bonds and all outstanding bonds issued under Section 475.521 are limited to 0.16% of the City's estimated market value of property in the City. The estimated market value of the property in the City for taxes collectible in 2023 is \$49,757,600. This results in a maximum annual debt service allowable of \$79,612 for capital improvement bonds outstanding at any time.

Issue Being Refunded	Date of Refunded Issue	To Be Payoff at Maturity	Call Price	Maturity Being Refunded	Interest Rate	Principal to be Refunded	CUSIP Base 559856
Series 2021B Bonds	6/24/2021	2/1/2024	Par	2024	0.35%	<u>\$1,550,000</u>	EQ8
Total Series 2021B Bonds Being Refunded						<u>\$1,550,000</u>	

Proceeds of the Bonds, with other available funds will be used to call and prepay the maturity described above and to pay all or most of the costs of issuance.

ESTIMATED SOURCES AND USES*

Sources

Par Amount of Bonds	\$635,000	
Planned Issuer Equity Contribution	<u>950,000</u>	
Total Sources		\$1,585,000

Uses

Total Underwriter's Discount (1.500%)	\$9,525	
Costs of Issuance	19,000	
Deposit to Current Refunding Fund	1,552,713	
Rounding Amount	<u>3,762</u>	
Total Uses		\$1,585,000

*Preliminary, subject to change.

SECURITY

The Bonds will be general obligations of the City for which its full faith and credit and taxing powers are pledged without limitation as to rate or amount. The City anticipates that the debt service on the Bonds will be paid from ad valorem property taxes. In accordance with Minnesota Statutes, the City will levy each year an amount not less than 105% of the debt service requirements on the Bonds.

In the event funds on hand for payment of principal and interest are at any time insufficient, the City is required to levy an additional ad valorem tax upon all taxable properties within its boundaries without limit as to rate or amount to make up any deficiency.

RATING

The City has not requested a rating on this issue. However, the City is currently rated "A+" by S&P Global Ratings. Such rating, if any, reflects only the views of such organization and explanations of the significance of such rating may be obtained from the rating agency furnishing the same. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by such rating agency, if in the judgement of such rating agency circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

Such rating is not to be construed as a recommendation of the rating agency to buy, sell or hold the Bonds, and the rating assigned by the rating agency should be evaluated independently. Except as may be required by the Disclosure Undertaking described under the heading "CONTINUING DISCLOSURE" neither the City nor the underwriter undertake responsibility to bring to the attention of the owner of the Bonds any proposed changes in or withdrawal of such rating or to oppose any such revision or withdrawal.

A rating for the Bonds may not be requested without contacting Ehlers and receiving the permission of the City.

CONTINUING DISCLOSURE

In order to assist brokers, dealers, and municipal securities dealers, in connection with their participation in the offering of the Bonds, to comply with Rule 15c2-12 promulgated by the Securities and Exchange Commission, pursuant to the Securities and Exchange Act of 1934, as amended (the "Rule"), the City shall agree to provide certain information to the Municipal Securities Rulemaking Board (MSRB) through its Electronic Municipal Market Access (EMMA) system, or any system that may be prescribed in the future. The Rule was last amended, effective February 27, 2019, to include an expanded list of material events.

On the date of issue and delivery, the City shall execute and deliver a Continuing Disclosure Certificate, under which the City will covenant for the benefit of holders including beneficial holders, to provide electronically, or in a manner otherwise prescribed, certain financial information annually and to provide notices of the occurrence of certain events enumerated in the Rule (the "Disclosure Undertaking"). The details and terms of the Disclosure Undertaking for the City are set forth in Appendix D. Such Disclosure Undertaking will be in substantially the form attached hereto.

A failure by the City to comply with any Disclosure Undertaking will not constitute an event of default on the Bonds. However, such a failure may adversely affect the transferability and liquidity of the Bonds and their market price.

In the previous five years, the City believes it has not failed to comply in all material respects with its prior undertakings under the Rule. The City has reviewed its continuing disclosure responsibilities along with any changes to the Rule, to ensure compliance. Ehlers is currently engaged as dissemination agent for the City.

LEGAL OPINION

An opinion as to the validity of the Bonds and the exemption from taxation of the interest thereon will be furnished by Taft Stettinius & Hollister LLP, Minneapolis, Minnesota, Bond Counsel to the City ("Bond Counsel"), and will be available at the time of delivery of the Bonds. The legal opinion will state that the Bonds are valid and binding general obligations of the City; provided that the rights of the owners of the Bonds and the enforceability of the Bonds may be limited by bankruptcy, insolvency, reorganization, moratorium, and other similar laws affecting creditors' rights and by equitable principles (which may be applied in either a legal or equitable proceeding). See "FORM OF LEGAL OPINION" found in Appendix B.

By expressing its opinion, Bond Counsel is expressing its professional judgment and does not become an insurer or guarantor of the result indicated by that expression of professional judgment or of the transaction or the future performance of the parties to the transaction. Ownership of the Bonds may result in other state and local tax consequences to certain taxpayers. Bond Counsel expresses no opinion regarding any such collateral consequences arising with respect to the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding the applicability of any such state and local taxes.

STATEMENT REGARDING BOND COUNSEL PARTICIPATION

Bond Counsel has neither been engaged nor undertaken to prepare or independently verify the accuracy of any portion of the Official Statement, including the financial or operational information of the Issuer and risks associated with the purchase of the Bonds, except for statements under "TAX EXEMPTION" herein that summarize certain provisions of the Internal Revenue Code of 1986, as amended, the Bonds and any opinion rendered by Bond Counsel. Bond Counsel has prepared the form of legal opinion attached hereto as "APPENDIX B – FORM OF LEGAL OPINION."

TAX EXEMPTION

On the date of issuance of the Bonds, Taft Stettinius & Hollister LLP, Bond Counsel, will render an opinion, that, based on present federal and Minnesota laws, regulations, rulings and decisions, at the time of the issuance of the Bonds, the interest on the Bonds is excluded from gross income for federal income tax purposes and is excluded, to the same extent, from both gross income and taxable net income for State of Minnesota income tax purposes (other than Minnesota franchise taxes measured by income and imposed on corporations and financial institutions). Interest on the Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals or for purposes of the Minnesota alternative minimum tax applicable to individuals, estates or trusts; however, interest on the Bonds is taken into account in determining "annual adjusted financial statement income" for the purpose of computing the federal alternative minimum tax imposed on certain corporations for tax years beginning after December 31, 2022. The opinions are subject to the condition that the City complies with all applicable federal tax requirements. Failure to comply with certain of such requirements may cause interest on the Bonds to be included in gross income and taxable net income, retroactive to their date of issuance. No opinion will be expressed by Bond Counsel regarding other state or federal tax consequences.

Other Federal and State Tax Considerations

Other Tax Considerations

Though excluded from gross income, interest on the Bonds is subject to federal income taxation for certain types of taxpayers and certain income taxes, including without implied limitation, taxation to the extent it is included as part of (a) the adjusted current earnings of a corporation for purposes of the alternative minimum tax, (b) effectively connected earnings and profits of a foreign corporation for purposes of the branch profits tax on dividend equivalent amounts, (c) excess net passive income of an S Corporation which has Subchapter C earnings and profits, or (d) minimum effectively connected net investment income of a foreign insurance company. Interest on the Bonds is also taken into account in other ways for federal income tax purposes, including without implied limitation, (a) reducing loss reserve deductions of property and casualty insurance companies, (b) reducing interest expense deductions of financial institutions, and (c) causing certain taxpayers to include in gross income a portion of social security benefits and railroad retirement benefits. Ownership of the Bonds may result in other collateral federal income tax consequences to certain taxpayers. Bond Counsel expresses no opinion as to any of such consequences, and prospective purchasers who may be subject to such collateral consequences should consult their tax advisers.

Original Issue Discount

Some of the Bonds ("the OID Bonds") may be sold at initial public offering prices which are less than the principal amounts payable at maturity. For each maturity of OID Bonds, original issue discount is the excess of the stated redemption price at maturity of such Bonds over the initial offering price to the public, excluding underwriters and other intermediaries, at which price a substantial amount of such Bonds are sold. The appropriate portion of such original issue discount allocable to the original and each subsequent holder will be treated as interest and excluded from gross income for federal income tax purposes and will increase a holders' tax basis in such Bonds for purposes of determining gain or loss upon sale, exchange, redemption, or payment at maturity. Owners of such Bonds should consult their own tax advisors with respect to the computation and determination of the portion of original issue discount which will be treated as interest and added to a holder's tax basis during the period such Bonds are held.

Original Issue Premium

Some of the Bonds may be sold at initial public offering prices which are greater than the principal amounts payable at maturity. Bondholders who acquire Bonds at a premium should consult their tax advisors concerning the calculation of bond premium and the timing and rate of premium amortization, as well as the federal, state and local tax consequences of owning and selling Bonds acquired at a premium.

Proposed Changes in Federal and State Tax Law

From time to time, there are Presidential proposals, proposals of various federal committees, and legislative proposals in the Congress and in the states that, if enacted, could alter or amend the federal and state tax matters referred to herein or adversely affect the marketability or market value of the Bonds or otherwise prevent holders of the Bonds from realizing the full benefit of the tax exemption of interest on the Bonds. Further, such proposals may impact the marketability or market value of the Bonds simply by being proposed. No prediction is made whether such provisions will be enacted as proposed or concerning other future legislation affecting the tax treatment of interest on the Bonds. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value, marketability or tax status of the Bonds. It cannot be predicted whether any such regulatory action will be implemented, how any particular litigation or judicial action will be resolved, or whether the Bonds would be impacted thereby.

The above is not a comprehensive list of all federal tax consequences that may arise from the receipt of interest on the Bonds. The receipt of interest on the Bonds may otherwise affect the federal or State of Minnesota income tax liability of the recipient based on the particular taxes to which the recipient is subject and the particular tax status of other items or deductions. Bond Counsel expresses no opinion regarding any such consequences. All prospective purchasers of the Bonds are advised to consult their own tax advisors as to the tax consequences of, or tax considerations for, purchasing or holding the Bonds.

QUALIFIED TAX-EXEMPT OBLIGATIONS

The Bonds shall be designated as "qualified tax-exempt obligations" for purposes of Section 265(b)(3) of the Code relating to the ability of financial institutions to deduct from income for federal income tax purposes, interest expense that is allocable to carrying and acquiring tax-exempt obligations.

MUNICIPAL ADVISOR

Ehlers has served as municipal advisor to the City in connection with the issuance of the Bonds. The Municipal Advisor cannot participate in the underwriting of the Bonds. The financial information included in this Preliminary Official Statement has been compiled by the Municipal Advisor. Such information does not purport to be a review, audit or certified forecast of future events and may not conform with accounting principles applicable to compilations of financial information. Ehlers is not a firm of certified public accountants. Ehlers is registered with the Securities and Exchange Commission and the MSRB as a municipal advisor. Ehlers makes no representation, warranty or guarantee regarding the accuracy or completeness of the information in this Preliminary Official Statement, and its assistance in preparing this Preliminary Official Statement should not be construed as a representation that it has independently verified such information.

MUNICIPAL ADVISOR AFFILIATED COMPANIES

BTSC and Ehlers Investment Partners, LLC ("EIP") are affiliate companies of Ehlers. BTSC is chartered by the State of Minnesota and authorized in Minnesota, Wisconsin, Colorado, and Illinois to transact the business of a limited purpose trust company. BTSC provides paying agent services to debt issuers. EIP is a Registered Investment Advisor with the Securities and Exchange Commission. EIP assists issuers with the investment of bond proceeds or investing other issuer funds. This includes escrow bidding agent services. Issuers, such as the City, have retained or may retain BTSC and/or EIP to provide these services. If hired, BTSC and/or EIP would be retained by the City under an agreement separate from Ehlers.

INDEPENDENT AUDITORS

The basic financial statements of the City for the fiscal year ended December 31, 2022 have been audited by Brady, Martz & Associates, P.C., Grand Forks, North Dakota, independent auditors (the "Auditor"). The report of the Auditor, together with the basic financial statements, component units financial statements, and notes to the financial statements are attached hereto as "APPENDIX A – FINANCIAL STATEMENTS". The Auditor has not been engaged to perform and has not performed, since the date of its report included herein, any procedures on the financial statements addressed in that report. The Auditor also has not performed any procedures relating to this Preliminary Official Statement.

RISK FACTORS

The following is a description of possible risks to holders of the Bonds without weighting as to probability. This description of risks is not intended to be all-inclusive, and there may be other risks not now perceived or listed here.

Taxes: The Bonds are general obligations of the City, the ultimate payment of which rests in the City's ability to levy and collect sufficient taxes to pay debt service. In the event of delayed billing, collection or distribution of property taxes, sufficient funds may not be available to the City in time to pay debt service when due.

State Actions: Many elements of local government finance, including the issuance of debt and the levy of property taxes, are controlled by state government. Future actions of the state may affect the overall financial condition of the City, the taxable value of property within the City, and the ability of the City to levy and collect property taxes.

Future Changes in Law: Various State and federal laws, regulations and constitutional provisions apply to the City and to the Bonds. The City can give no assurance that there will not be a change in or interpretation of any such applicable laws, regulations and provisions which would have a material effect on the City or the taxing authority of the City.

Interest Rates: In the future, interest rates for this type of obligation may rise generally, possibly resulting in a reduction in the value of the Bonds for resale prior to maturity.

Tax Exemption: If the federal government or the State of Minnesota taxes all or a portion of the interest on municipal obligations, directly or indirectly, or if there is a change in federal or state tax policy, the value of the Bonds may fall for purposes of resale. Noncompliance following the issuance of the Bonds with certain requirements of the Code and covenants of the Award Resolution may result in the inclusion of interest on the Bonds in gross income of the recipient for United States income tax purposes or in taxable net income of individuals, estates or trusts for State of Minnesota income tax purposes. No provision has been made for redemption of the Bonds, or for an increase in the interest rate on the Bonds, in the event that interest on the Bonds becomes subject to federal or State of Minnesota income taxation, retroactive to the date of issuance.

Continuing Disclosure: A failure by the City to comply with the Disclosure Undertaking for continuing disclosure (see "CONTINUING DISCLOSURE") will not constitute an event of default on the Bonds. Any such failure must be reported in accordance with the Rule and must be considered by any broker, dealer, or municipal securities dealer before recommending the purchase or sale of the Bonds in the secondary market. Such a failure may adversely affect the transferability and liquidity of the Bonds and their market price.

Levy Limits: The State Legislature has periodically imposed limitations on the ability of municipalities to levy property taxes. While these limitations have expired, the potential exists for future legislation to limit the ability of local governments to levy property taxes. All previous limitations have not limited the ability to levy for the payment of debt service on bonded indebtedness. For more detailed information about Minnesota levy limits, contact the Minnesota Department of Revenue or Ehlers and Associates.

State Economy; State Aids: State of Minnesota cash flow problems could affect local governments and possibly increase property taxes.

Book-Entry-Only System: The timely credit of payments for principal and interest on the Bonds to the accounts of the Beneficial Owners of the Bonds may be delayed due to the customary practices, standing instructions or for other unknown reasons by DTC participants or indirect participants. Since the notice of redemption or other notices to holders of these obligations will be delivered by the City to DTC only, there may be a delay or failure by DTC, DTC participants or indirect participants to notify the Beneficial Owners of the Bonds.

Economy: A combination of economic, climatic, political or civil disruptions or terrorist actions outside of the control of the City, including loss of major taxpayers or major employers, could affect the local economy and result in reduced tax collections and/or increased demands upon local government. Real or perceived threats to the financial stability of the City may have an adverse effect on the value of the Bonds in the secondary market.

Secondary Market for the Bonds: No assurance can be given that a secondary market will develop for the purchase and sale of the Bonds or, if a secondary market exists, that such Bonds can be sold for any particular price. The underwriters are not obligated to engage in secondary market trading or to repurchase any of the Bonds at the request of the owners thereof. Prices of the Bonds as traded in the secondary market are subject to adjustment upward and downward in response to changes in the credit markets and other prevailing circumstances. No guarantee exists as to the future market value of the Bonds. Such market value could be substantially different from the original purchase price.

Bankruptcy: The rights and remedies of the holders may be limited by and are subject to the provisions of federal bankruptcy laws, to other laws, or equitable principles that may affect the enforcement of creditors' rights, to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against local governments. The opinion of Bond Counsel to be delivered with respect to the Bonds will be similarly qualified.

Cybersecurity: The City is dependent on electronic information technology systems to deliver services. These systems may contain sensitive information or support critical operational functions which may have value for unauthorized purposes. As a result, the electronic systems and networks may be targets of cyberattack. There can be no assurance that the City will not experience an information technology breach or attack with financial consequences that could have a material adverse impact.

Impact of the Spread of COVID-19: The effects of the spread of COVID-19 and the government and private responses to the spread continue to rapidly evolve. COVID-19 has caused significant disruptions to the global, national and State economy. The extent to which the coronavirus impacts the City and its financial condition will depend on future developments, which are highly uncertain and cannot be predicted by the City, including the duration of the outbreak and measures taken to address the outbreak.

The Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") provides for federal payments from the Coronavirus Relief Fund to the State for the discrete purpose of covering expenses directly incurred as a result of COVID-19 between March 1 and December 30, 2020. On March 11, 2021, President Biden signed the American Rescue Plan Act of 2021, which provides local governments an additional \$130.2 billion through the Coronavirus Local Fiscal Recovery Fund. These funds can be used to mitigate increased expenditures, lost revenue and economic hardship related to the COVID-19 pandemic.

The foregoing is intended only as a summary of certain risk factors attendant to an investment in the Bonds. In order for potential investors to identify risk factors and make an informed investment decision, potential investors should be thoroughly familiar with this entire Preliminary Official Statement and the Appendices hereto.

VALUATIONS

OVERVIEW

All non-exempt property is subject to taxation by local taxing districts. Exempt real property includes Indian lands, public property, and educational, religious and charitable institutions. Most personal property is exempt from taxation (except investor-owned utility mains, generating plants, etc.).

The valuation of property in Minnesota consists of three elements. (1) The estimated market value is set by city or county assessors. Not less than 20% of all real properties are to be appraised by local assessors each year. (2) The taxable market value is the estimated market value adjusted by all legislative exclusions. (3) The tax capacity (taxable) value of property is determined by class rates set by the State Legislature. The tax capacity rate varies according to the classification of the property. Tax capacity represents a percent of taxable market value.

The property tax rate for a local taxing jurisdiction is determined by dividing the total tax capacity or market value of property within the jurisdiction into the dollars to be raised from the levy. State law determines whether a levy is spread on tax capacity or market value. Major classifications and the percentages by which tax capacity is determined are:

Type of Property	2020/21	2021/22	2022/23
Residential homestead ¹	First \$500,000 - 1.00% Over \$500,000 - 1.25%	First \$500,000 - 1.00% Over \$500,000 - 1.25%	First \$500,000 - 1.00% Over \$500,000 - 1.25%
Agricultural homestead ¹	First \$500,000 HGA - 1.00% Over \$500,000 HGA - 1.25% First \$1,880,000 - 0.50% ² Over \$1,880,000 - 1.00% ²	First \$500,000 HGA - 1.00% Over \$500,000 HGA - 1.25% First \$1,900,000 - 0.50% ² Over \$1,900,000 - 1.00% ²	First \$500,000 HGA - 1.00% Over \$500,000 HGA - 1.25% First \$1,890,000 - 0.50% ² Over \$1,890,000 - 1.00% ²
Agricultural non-homestead	Land - 1.00% ²	Land - 1.00% ²	Land - 1.00% ²
Seasonal recreational residential	First \$500,000 - 1.00% ³ Over \$500,000 - 1.25% ³	First \$500,000 - 1.00% ³ Over \$500,000 - 1.25% ³	First \$500,000 - 1.00% ³ Over \$500,000 - 1.25% ³
Residential non-homestead:	1 unit - 1st \$500,000 - 1.00% Over \$500,000 - 1.25% 2-3 units - 1.25% 4 or more - 1.25% Small City ⁴ - 1.25% Affordable Rental: First \$174,000 - .75% Over \$174,000 - .25%	1 unit - 1st \$500,000 - 1.00% Over \$500,000 - 1.25% 2-3 units - 1.25% 4 or more - 1.25% Small City ⁴ - 1.25% Affordable Rental: First \$100,000 - .75% Over \$100,000 - .25%	1 unit - 1st \$500,000 - 1.00% Over \$500,000 - 1.25% 2-3 units - 1.25% 4 or more - 1.25% Small City ⁴ - 1.25% Affordable Rental: First \$100,000 - .75% Over \$100,000 - .25%
Industrial/Commercial/Utility ⁵	First \$150,000 - 1.50% Over \$150,000 - 2.00%	First \$150,000 - 1.50% Over \$150,000 - 2.00%	First \$150,000 - 1.50% Over \$150,000 - 2.00%

¹ A residential property qualifies as "homestead" if it is occupied by the owner or a relative of the owner on the assessment date.

² Applies to land and buildings. Exempt from referendum market value tax.

³ Exempt from referendum market value tax.

⁴ Cities of 5,000 population or less and located entirely outside the seven-county metropolitan area and the adjacent nine-county area and whose boundaries are 15 miles or more from the boundaries of a Minnesota city with a population of over 5,000.

⁵ The estimated market value of utility property is determined by the Minnesota Department of Revenue.

CURRENT PROPERTY VALUATIONS

2022/23 Economic Market Value	<u><u>\$59,217,296¹</u></u>
2022/23 Assessor's Estimated Market Value	
Real Estate	\$45,881,800
Personal Property	<u>3,875,800</u>
Total Valuation	<u><u>\$49,757,600</u></u>
2022/23 Net Tax Capacity	
Real Estate	\$505,810
Personal Property	<u>75,571</u>
Net Tax Capacity	\$581,381
Less: Captured Tax Increment Tax Capacity ²	<u>(3,125)</u>
Taxable Net Tax Capacity	<u><u>\$578,256</u></u>

2022/23 NET TAX CAPACITY BY CLASSIFICATION

	2022/23 Net Tax Capacity	Percent of Total Net Tax Capacity
Residential homestead	\$140,725	24.21%
Agricultural	2,750	0.47%
Commercial/industrial	229,729	39.51%
Public utility	170	0.03%
Railroad operating property	6,365	1.09%
Non-homestead residential	126,071	21.68%
Personal property	<u>75,571</u>	<u>13.00%</u>
Total	<u><u>\$581,381</u></u>	<u><u>100.00%</u></u>

¹ According to the Minnesota Department of Revenue, the Assessor's Estimated Market Value (the "AEMV") for the City is about 87.19% of the actual selling prices of property sold in the City. The sales ratio was calculated by comparing the selling prices with the AEMV. Dividing the AEMV of real estate by the sales ratio and adding the AEMV of personal property and utility, railroads and minerals, if any, results in an Economic Market Value ("EMV") for the City of \$59,217,296.

² The captured tax increment value shown above represents the captured net tax capacity of tax increment financing districts in the City.

TREND OF VALUATIONS

Levy Year	Assessor's Estimated Market Value	Assessor's Taxable Market Value	Net Tax Capacity ¹	Taxable Net Tax Capacity ²	Percent Increase/Decrease in Estimated Market Value
2018/19	\$46,790,000	\$40,461,606	\$533,436	\$524,278	18.05%
2019/20	46,767,100	40,678,509	537,148	531,357	-0.05%
2020/21	46,807,600	40,755,243	543,397	540,330	0.09%
2021/22	45,198,800	39,392,483	530,516	527,449	-3.44%
2022/23	49,757,600	43,911,529	581,381	578,256	10.09%

LARGEST TAXPAYERS

Taxpayer	Type of Property	2022/23 Net Tax Capacity	Percent of City's Total Net Tax Capacity
White Earth Band of Chippewa	Commercial	\$67,208	11.56%
Ottertail Power Company	Transmission Lines	51,910	8.93%
Wild Rice Electric Co-op, Inc.	Commercial	25,210	4.34%
CHS, Inc.	Commercial	24,488	4.21%
White Earth Band of Minnesota	Commercial	15,208	2.62%
United Valley Bank	Commercial	12,822	2.21%
Community Co-ops of Lake Park	Utility	12,648	2.18%
Cenex Harvest States	Struct-RR Operating	9,046	1.56%
Bake That Dollar, LLC	Commercial	7,186	1.24%
Mahnomen Area Assisted Living	Apartments	6,233	1.07%
Total		\$231,959	39.90%

City's Total 2022/23 Net Tax Capacity \$581,381

Source: Current Property Valuations, Net Tax Capacity by Classification, Trend of Valuations and Largest Taxpayers have been furnished by Mahnomen County.

¹ Net Tax Capacity includes tax increment values.

² Taxable Net Tax Capacity does not include tax increment values.

DEBT

DIRECT DEBT¹

General Obligation Debt (see schedules following)

Total G.O. debt secured by taxes (includes the Bonds)*	\$673,333
Total G.O. debt secured by utility revenues	7,804,073
Total General Obligation Debt*	<u>\$8,477,406</u>

*Preliminary, subject to change.

DEBT PAYMENT HISTORY

The City has no record of default in the payment of principal and interest on its debt.

FUTURE FINANCING

The City has no current plans for additional financing in the next 12 months.

¹ Outstanding debt is as of the dated date of the Bonds.

DEBT LIMIT

The statutory limit on net debt of Minnesota municipalities other than school districts or cities of the first class (Minnesota Statutes, Section 475.53, subd. 1) is 3% of the Assessor's Estimated Market Value of all taxable property within its boundaries. "Net debt" (is defined under Minnesota Statutes, Section 475.51, subd. 4) to mean the amount remaining after deducting from gross debt the amount of current revenues which are applicable within the current fiscal year to the payment of any debt and the aggregate principal of the following: (1) obligations issued for improvements payable wholly or partly from special assessments levied against benefitted property; (2) warrants or orders having no definite or fixed maturity; (3) obligations payable wholly from the income of revenue producing conveniences; (4) obligations issued to create or maintain a permanent improvement revolving fund; (5) obligations issued to finance any public revenue producing convenience; (6) funds held as sinking funds for payment of principal and interest on debt other than those deductible under Minnesota Statutes, Section 475.51, subd. 4; (7) obligations to repay energy conservation investment loans under Minnesota Statutes, Section 216C.37; (8) obligations issued to pay judgments against the City; and (9) all other obligations which are not to be included in computing the net debt of a municipality under the provisions of the law authorizing their issuance (includes the Bonds).

2022/23 Assessor's Estimated Market Value	\$49,757,600
Multiply by 3%	<u>0.03</u>
Statutory Debt Limit	\$1,492,728
Less: Long-Term Debt Outstanding Being Paid Solely from Taxes ¹	<u>(38,333)</u>
Unused Debt Limit	<u><u>\$1,454,395</u></u>

¹ Does not include the Bonds as they are not subject to the debt limit per Minnesota Statutes.

City of Mahanomen, Minnesota
Schedule of Bonded Indebtedness
General Obligation Debt Secured by Taxes
(As of 01/29/2024)

Promissory Note 1)			Capital Improvement Plan Bonds 2) Series 2024A							
Dated Amount	11/01/2017 \$100,000		01/29/2024 \$635,000*							
Maturity	Monthly		02/01							
Calendar Year Ending	Principal	Interest	Principal	Estimated Interest	Total Principal	Total Interest	Total P & I	Principal Outstanding	% Paid	Calendar Year Ending
2024	9,167	0	0	13,028	9,167	13,028	22,195	664,167	1.36%	2024
2025	10,000	0	0	25,770	10,000	25,770	35,770	654,167	2.85%	2025
2026	10,000	0	45,000	24,836	55,000	24,836	79,836	599,167	11.01%	2026
2027	9,167	0	50,000	22,878	59,167	22,878	82,044	540,000	19.80%	2027
2028			50,000	20,840	50,000	20,840	70,840	490,000	27.23%	2028
2029			55,000	18,728	55,000	18,728	73,728	435,000	35.40%	2029
2030			55,000	16,528	55,000	16,528	71,528	380,000	43.56%	2030
2031			60,000	14,228	60,000	14,228	74,228	320,000	52.48%	2031
2032			60,000	11,813	60,000	11,813	71,813	260,000	61.39%	2032
2033			60,000	9,383	60,000	9,383	69,383	200,000	70.30%	2033
2034			65,000	6,851	65,000	6,851	71,851	135,000	79.95%	2034
2035			65,000	4,203	65,000	4,203	69,203	70,000	89.60%	2035
2036			70,000	1,435	70,000	1,435	71,435	0	100.00%	2036
	38,333	0	635,000	190,518	673,333	190,518	863,851			

* Preliminary, subject to change.

- 1) The interest is zero for this issue.
- 2) This issue is refunding the outstanding maturity of the City's \$1,550,000 General Obligation Temporary Capital Improvement Plan Bonds, Series 2021B, dated June 24, 2021.

City of Mahanomen, Minnesota
Schedule of Bonded Indebtedness
General Obligation Debt Secured by Utility Revenues
(As of 01/29/2024)

	Water Revenue Note of 2008		Sewer Revenue Note of 2008		Sewer and Water Revenue Refunding Bonds Series 2020A		Water and Sewer Revenue Bonds of 2022A		Taxable Utility Revenue Bond of 2023A							
Dated Amount	07/30/2008 \$390,054		08/07/2008 \$718,929		03/26/2020 \$1,110,000		03/24/2022 \$6,000,000		05/25/2023 \$785,000							
Maturity	08/20		08/20		02/01		03/24		05/25							
Calendar Year Ending	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Total Principal	Total Interest	Total P & I	Principal Outstanding	% Paid	Calendar Year Ending
2024	23,000	1,412	42,000	3,072	90,000	21,750	117,997	72,813	12,310	17,711	285,307	116,758	402,065	7,518,766	3.66%	2024
2025	23,000	1,063	43,000	2,322	90,000	19,050	119,472	71,329	12,586	17,386	288,058	111,149	399,208	7,230,708	7.35%	2025
2026	23,000	713	43,000	1,554	95,000	16,275	120,965	69,827	12,870	17,102	294,835	105,471	400,306	6,935,873	11.12%	2026
2027	24,000	364	44,000	786	95,000	13,425	122,478	68,305	13,159	16,813	298,637	99,693	398,330	6,637,236	14.95%	2027
2028					100,000	10,500	124,009	66,764	13,455	16,562	237,464	93,826	331,291	6,399,772	17.99%	2028
2029					100,000	7,500	125,559	65,205	13,758	16,214	239,317	88,919	328,236	6,160,455	21.06%	2029
2030					95,000	5,050	127,128	63,625	14,068	15,904	236,196	84,580	320,775	5,924,259	24.09%	2030
2031					100,000	3,100	128,717	62,026	14,384	15,588	243,101	80,714	323,815	5,681,158	27.20%	2031
2032					105,000	1,050	130,326	60,407	14,708	15,306	250,034	76,763	326,797	5,431,124	30.41%	2032
2033							131,955	58,768	15,039	14,933	146,994	73,701	220,695	5,284,131	32.29%	2033
2034							133,605	57,108	15,377	14,595	148,982	71,703	220,685	5,135,149	34.20%	2034
2035							135,275	55,428	15,723	14,249	150,998	69,677	220,675	4,984,150	36.13%	2035
2036							136,966	53,726	16,077	13,933	153,043	67,660	220,702	4,831,108	38.10%	2036
2037							138,678	52,004	16,439	13,533	155,117	65,537	220,654	4,675,991	40.08%	2037
2038							140,411	50,259	16,808	13,164	157,219	63,423	220,642	4,518,772	42.10%	2038
2039							142,166	48,493	17,187	12,785	159,353	61,279	220,631	4,359,419	44.14%	2039
2040							143,943	46,705	17,573	12,433	161,516	59,138	220,654	4,197,903	46.21%	2040
2041							145,743	44,894	17,969	12,003	163,712	56,898	220,609	4,034,191	48.31%	2041
2042							147,565	43,061	18,373	11,599	165,938	54,660	220,598	3,868,253	50.43%	2042
2043							149,409	41,205	18,786	11,186	168,195	52,391	220,586	3,700,058	52.59%	2043
2044							151,277	39,326	19,209	10,792	170,486	50,118	220,604	3,529,572	54.77%	2044
2045							153,168	37,423	19,641	10,331	172,809	47,754	220,563	3,356,762	56.99%	2045
2046							155,082	35,497	20,083	9,889	175,165	45,385	220,551	3,181,597	59.23%	2046
2047							157,021	33,546	20,535	9,437	177,556	42,983	220,539	3,004,041	61.51%	2047
2048							158,984	31,571	20,997	8,999	179,981	40,570	220,551	2,824,060	63.81%	2048
2049							160,971	29,571	21,470	8,502	182,441	38,074	220,514	2,641,619	66.15%	2049
2050							162,983	27,546	21,953	8,019	184,936	35,566	220,501	2,456,684	68.52%	2050
2051							165,020	25,496	22,447	7,525	187,467	33,022	220,488	2,269,217	70.92%	2051
2052							167,083	23,421	22,952	7,040	190,035	30,460	220,495	2,079,182	73.36%	2052
2053							169,172	21,319	23,468	6,504	192,640	27,823	220,463	1,886,542	75.83%	2053
2054							171,286	19,191	23,996	5,976	195,282	25,167	220,449	1,691,260	78.33%	2054
2055							173,427	17,037	24,536	5,436	197,963	22,473	220,436	1,493,297	80.87%	2055
2056							175,595	14,855	25,088	4,897	200,683	19,753	220,436	1,292,614	83.44%	2056
2057							177,790	12,647	25,653	4,319	203,443	16,966	220,409	1,089,172	86.04%	2057
2058							180,012	10,411	26,230	3,742	206,242	14,153	220,395	882,930	88.69%	2058
2059							182,263	8,146	26,820	3,152	209,083	11,298	220,381	673,847	91.37%	2059
2060							184,541	5,854	27,423	2,556	211,964	8,409	220,374	461,883	94.08%	2060
2061							186,848	3,533	28,040	1,932	214,888	5,464	220,353	246,995	96.84%	2061
2062							189,183	1,182	28,671	1,301	217,854	2,483	220,337	29,140	99.63%	2062
2063									29,140	656	29,140	656	29,796	0	100.00%	2063
	93,000	3,552	172,000	7,733	870,000	97,700	5,884,073	1,549,526	785,000	414,005	7,804,073	2,072,517	9,876,590			

OVERLAPPING DEBT¹

Taxing District	2022/23 Taxable Net Tax Capacity	% In City	Total G.O. Debt ²	City's Proportionate Share
Mahnomen County	\$8,016,069	7.2137%	\$1,945,000 ³	\$140,306
I.S.D. No. 432 (Mahnomen Public Schools)	4,903,633	11.7924%	5,615,000	<u>662,143</u>
City's Share of Total Overlapping Debt				<u><u>\$802,450</u></u>

¹ Overlapping debt is as of the dated date of the Bonds. Only those taxing jurisdictions with general obligation debt outstanding are included in this section. It does *not* include non-general obligation debt, self-supporting general obligation revenue debt, short-term general obligation debt, or general obligation tax/aid anticipation certificates of indebtedness.

² Outstanding debt is based on information in Official Statements obtained on EMMA and the Municipal Advisor's records.

³ Minnesota School Districts may qualify for aid from the State of Minnesota through the Debt Service Equalization Formula, School Building Bond Agricultural Credit and Long Term Facilities Maintenance Revenue programs. While some of the districts listed may receive these aids, Ehlers has not attempted to estimate the portion of debt service payments that would be financed by state aids for the purposes of the Bonds.

DEBT RATIOS

	G.O. Debt	Debt/Economic Market Value \$59,217,296	Debt/ Per Capita 1,233¹
Direct G.O. Debt Secured By:			
Taxes*	\$673,333		
Utility Revenues	7,804,073		
Total General Obligation Debt*	\$8,477,406		
Less: G.O. Debt Paid Entirely from Revenues ²	(7,804,073)		
Tax Supported General Obligation Debt*	\$673,333	1.14%	\$546.09
City's Share of Total Overlapping Debt	\$802,450	1.36%	\$650.81
Total*	\$1,475,783	2.49%	\$1,196.90

*Preliminary, subject to change.

TAX LEVIES, COLLECTIONS AND RATES

TAX LEVIES AND COLLECTIONS

Tax Year	Net Tax Levy³	Total Collected Following Year	Collected to Date	% Collected
2018/19	\$228,412	\$221,077	\$227,958	99.80%
2019/20	251,244	246,121	249,940	99.48%
2020/21	259,701	253,125	258,355	99.48%
2021/22	286,522	280,054	280,054	97.74%
2022/23	315,276	In process of collection		

Property taxes are collected in two installments in Minnesota--the first by May 15 and the second by October 15.⁴ Mobile home taxes are collectible in full by August 31. Minnesota Statutes require that levies (taxes and special assessments) for debt service be at least 105% of the actual debt service requirements to allow for delinquencies.

¹ Estimated 2022 population.

² Debt service on the City's general obligation revenue debt is being paid entirely from revenues and therefore is considered self-supporting debt.

³ This reflects the Final Levy Certification of the City after all adjustments have been made.

⁴ Second half tax payments on agricultural property are due on November 15th of each year.

TAX CAPACITY RATES¹

	2018/19	2019/20	2020/21	2021/22	2022/23
Mahnomen County	74.367%	71.461%	66.879%	68.011%	67.896%
City of Mahnomen	43.575%	47.293%	48.252%	54.373%	54.556%
I.S.D. No. 432 (Mahnomen Public Schools)	22.443%	20.367%	18.922%	18.090%	16.158%
Wild Rice Watershed	6.275%	4.600%	4.553%	4.882%	4.811%

Referendum Market Value Rates:

I.S.D. No. 432 (Mahnomen Public Schools)	0.13351%	0.09106%	0.10381%	0.13594%	0.13294%
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Source: Tax Levies and Collections and Tax Capacity Rates have been furnished by Mahnomen County.

THE ISSUER

CITY GOVERNMENT

The City was organized as a municipality in 1905. The City operates under a statutory form of government consisting of a five-member City Council of which the Mayor is a voting member. The City Administrator and Assistant City Administrator are responsible for administrative details and financial records.

EMPLOYEES; PENSIONS; UNIONS

The City currently has nine (9) full-time and ten (10) part-time employees. All full-time and certain part-time employees of the City are covered by defined benefit pension plans administered by the Public Employee Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund (GERF) and the Public Employees Police and Fire Fund (PEPFF) which are cost-sharing multiple-employer retirement plans. PERA members belong to either the Coordinated Plan or the Basic Plan. Coordinated members are covered by Social Security. See the Notes to Financial Statements in Appendix A for a detailed description of the Plans.

Recognized and Certified Bargaining Units

The City does not have any Recognized and Certified Bargaining Units.

¹ After reduction for state aids. Does not include the statewide general property tax against commercial/industrial, non-homestead resorts and seasonal recreational residential property.

POST EMPLOYMENT BENEFITS

The City does not pay directly for retirees' post-employment benefits. The City has some obligations for post-employment benefits as mandated by State Statutes. Specifically, the City is required to allow retirees to be covered by the City's health care plan as long as the retiree pays his/her premiums. Retiree membership in a health care plan typically increases costs of the premiums. This increased cost is commonly known as implicit price subsidy.

LITIGATION

There is no litigation threatened or pending questioning the organization or boundaries of the City or the right of any of its officers to their respective offices or in any manner questioning their rights and power to execute and deliver the Bonds or otherwise questioning the validity of the Bonds.

MUNICIPAL BANKRUPTCY

Municipalities are prohibited from filing for bankruptcy under Chapter 11 (reorganization) or Chapter 7 (liquidation) of the U.S. Bankruptcy Code (11 U.S.C. §§ 101-1532) (the "Bankruptcy Code"). Instead, the Bankruptcy Code permits municipalities to file a petition under Chapter 9 of the Bankruptcy Code, but only if certain requirements are met. These requirements include that the municipality must be "specifically authorized" under State law to file for relief under Chapter 9. For these purposes, "State law" may include, without limitation, statutes of general applicability enacted by the State legislature, special legislation applicable to a particular municipality, and/or executive orders issued by an appropriate officer of the State's executive branch.

As of the date hereof, Minnesota Statutes, Section 471.831, authorizes municipalities to file for bankruptcy relief under Chapter 9 of the Bankruptcy Code. A municipality is defined in United States Code, title 11, section 101, as amended through December 31, 1996, but limited to a county, statutory or home rule charter city, or town; or a housing and redevelopment authority, economic development authority, or rural development financing authority established under Chapter 469, a home rule charter or special law.

FUNDS ON HAND (as of October 31, 2023)

Fund	Total Cash and Investments
General	\$1,242,539
Water	785,935
Sewer	679,194
Liquor Funds	491,908
Enterprise Funds	<u>181,313</u>
Total Funds on Hand	<u><u>\$3,380,889</u></u>

ENTERPRISE FUNDS

Revenues available for debt service on the City's enterprise funds have been as follows as of December 31 each year:

	2019 Audited	2020 Audited	2021 Audited
Water			
Total Operating Revenues	\$391,628	\$420,877	\$443,404
Less: Operating Expenses	<u>(271,645)</u>	<u>(291,594)</u>	<u>(346,104)</u>
Operating Income	\$119,983	\$129,283	\$97,300
Plus: Depreciation	<u>94,701</u>	<u>94,918</u>	<u>130,790</u>
Revenues Available for Debt Service	<u><u>\$214,684</u></u>	<u><u>\$224,201</u></u>	<u><u>\$228,090</u></u>
Sewer			
Total Operating Revenues	\$323,144	\$341,613	\$358,882
Less: Operating Expenses	<u>(227,762)</u>	<u>(226,310)</u>	<u>(293,181)</u>
Operating Income	\$95,382	\$115,303	\$65,701
Plus: Depreciation	<u>99,928</u>	<u>100,114</u>	<u>116,968</u>
Revenues Available for Debt Service	<u><u>\$195,310</u></u>	<u><u>\$215,417</u></u>	<u><u>\$182,669</u></u>
Liquor Store¹			
Total Operating Revenues	\$356,076	\$489,835	\$537,454
Less: Operating Expenses	<u>(425,837)</u>	<u>(450,097)</u>	<u>(529,481)</u>
Operating Income	(\$69,761)	\$39,738	\$7,973
Plus: Depreciation	<u>27,024</u>	<u>24,444</u>	<u>24,661</u>
Revenues Available for Debt Service	<u><u>(\$42,737)</u></u>	<u><u>\$64,182</u></u>	<u><u>\$32,634</u></u>

¹ The operating expenses include annual internal fund loan payments of \$38,199 to the General Fund.

SUMMARY GENERAL FUND INFORMATION

The following are summaries of the revenues and expenditures and fund balances for the City's General Fund. These summaries are not purported to be the complete audited financial statements of the City, and potential purchasers should read the included financial statements in their entirety for more complete information concerning the City. Copies of the complete statements are available upon request. Appendix A includes the City's 2022 audited financial statements.

FISCAL YEAR ENDING DECEMBER 31					
COMBINED STATEMENT	2020 Audited	2021 Audited	2022 Audited	2023 Adopted Budget ¹	2024 Adopted Budget ²
Revenues					
Property taxes	\$252,507	\$259,733	\$252,438	\$274,769	\$298,123
Intergovernmental	1,031,052	895,079	937,592	1,436,553	1,047,173
Charges for services	62,872	59,044	61,513	46,660	123,767
Interest earnings	58,425	12,261	11,637	15,000	20,000
Grants	17,700	12,500	67,158	26,500	1,701,195
Contributions and donations	44,250	6,330	1,267	0	0
Special assessments	12,836	7,310	6,074	11,187	36,841
Other miscellaneous revenues	51,833	88,544	78,155	211,725	97,429
Total Revenues	\$1,531,475	\$1,340,801	\$1,415,834	\$2,022,394	\$3,324,528
Expenditures					
Current:					
General government	\$331,176	\$396,511	\$458,763	\$542,693	\$618,603
Public safety	404,395	415,545	460,533	430,042	453,853
Public works	103,080	133,660	169,022	171,641	547,990
Culture and recreation	48,370	53,192	60,104	82,237	117,917
Economic development	116,074	32,505	73,700	37,877	30,000
Capital outlay	207,382	154,564	637,345	2,264,477	1,701,195
Debt service	18,350	18,195	18,040	42,274	44,448
Total Expenditures	\$1,228,827	\$1,204,172	\$1,877,507	\$3,571,241	\$3,514,006
Excess of revenues over (under) expenditures	\$302,648	\$136,629	(\$461,673)	(\$1,548,847)	(\$189,478)
Other Financing Sources (Uses)					
Operating transfers out	(\$116)	\$0	(\$1,116)	\$0	\$0
Operating transfers in	0	0	1,003,576	0	0
Total Other Financing Sources (Uses)	(\$116)	\$0	\$1,002,460	\$0	\$0
Net changes in Fund Balances	\$302,532	\$136,629	\$540,787	(\$1,548,847)	(\$189,478)
General Fund Balance January 1	\$2,923,995	\$3,226,527	\$3,363,156		
Prior Period Adjustment	0	0	0		
Residual Equity Transfer in (out)	0	0	0		
General Fund Balance December 31	\$3,226,527	\$3,363,156	\$3,903,943		
DETAILS OF DECEMBER 31 FUND BALANCE					
Nonspendable	\$14,676	\$14,290	\$14,324		
Committed	174,053	174,053	194,053		
Assigned	2,000,000	2,000,000	2,000,000		
Unassigned	1,037,798	1,174,813	1,695,566		
Total	\$3,226,527	\$3,363,156	\$3,903,943		

Notes:

- The increase in capital outlay in 2022 was due to a one-time planned passthrough water and sewer expense and offset by transfers-in from the water and sewer funds.
- The increase in capital outlay in 2023 was due to one-time planned expenditures and partially offset by grant receipts. The remaining deficit shown was a planned use of the fund balance.
- The increase in capital outlay in 2024 was due to one-time planned expenditures and offset by grant receipts.

¹ The 2023 budget was adopted on December 19, 2022.

² The 2024 budget will be adopted on December 18, 2023.

GENERAL INFORMATION

LOCATION

The City, with a 2020 U.S. Census population of 1,240 and a 2022 population estimate of 1,233, and comprising an area of one square mile, is located approximately 250 miles northwest of the Minneapolis-St. Paul, Minnesota metropolitan area.

LARGER EMPLOYERS¹

Larger employers in the City include the following:

Firm	Type of Business/Product	Estimated No. of Employees
Shooting Star Casino Hotel	Casinos and event center	1,000
Mahnomen Health Center	Hospital	150
I.S.D. No. (Mahnomen Public Schools)	Elementary and secondary education	130
Gordon Construction	Excavating contractors	120
Mahnomen County	County government and services	98
Wild Rice Electric Co-Op, Inc.	Electric companies	43
Community Cooperative	Oil-Fuel Wholesalers	37
Bruggeman's Supervalu	Grocers-retail	30
Sanford Home Care	Home health care services	30
The City	Municipal government and services	19

Source: The City, Data Axle Reference Solutions, written and telephone survey, and the Minnesota Department of Employment and Economic Development.

¹ This does not purport to be a comprehensive list and is based on available data obtained through a survey of individual employers, as well as the sources identified above.

U.S. CENSUS DATA

Population Trend: The City

2010 U.S. Census population	1,214
2020 U.S. Census population	1,240
Percent of Change 2010 - 2020	2.14%

2022 State Demographer Population Estimate	1,233
--	-------

Income and Age Statistics

	The City	Mahnomen County	State of Minnesota	United States
2022 per capita income	\$22,066	\$24,710	\$44,947	\$41,261
2022 median household income	\$41,875	\$52,739	\$84,313	\$75,149
2022 median family income	\$60,357	\$63,462	\$107,072	\$92,646
2022 median gross rent	\$742	\$693	\$1,178	\$1,268
2022 median value owner occupied units	\$78,500	\$132,900	\$186,800	\$281,900
2022 median age	39.1 yrs.	35.1yrs.	38.5 yrs.	38.5 yrs.

	State of Minnesota	United States
City % of 2022 per capita income	49.09%	53.48%
City % of 2022 median family income	56.37%	65.15%

Housing Statistics

	<u>The City</u>		
	2020	2022	Percent of Change
All Housing Units	514	507	-1.36%

Source: 2010 and 2020 Census of Population and Housing, and 2022 American Community Survey (Based on a five-year estimate), U.S. Census Bureau (<https://data.census.gov/cedsci>), and Minnesota State Demographer (<https://mn.gov/admin/demography/data-by-topic/population-data/our-estimates/>).

EMPLOYMENT/UNEMPLOYMENT DATA

Rates are not compiled for individual communities within counties.

Year	<u>Average Employment</u>	<u>Average Unemployment</u>	
	Mahnomen County	Mahnomen County	State of Minnesota
2019	2,197	4.8%	3.3%
2020	1,933	13.2%	6.3%
2021	2,036	6.6%	3.8%
2022	2,125	4.9%	2.7%
2023, November	2,200	3.3%	1.9%

Source: Minnesota Department of Employment and Economic Development.

FINANCIAL STATEMENTS

Potential purchasers should read the included financial statements in their entirety for more complete information concerning the City's financial position. Such financial statements have been audited by the Auditor, to the extent and for the periods indicated thereon. The City has not requested or engaged the Auditor to perform, and the Auditor has not performed, any additional examination, assessments, procedures or evaluation with respect to such financial statements since the date thereof or with respect to this Preliminary Official Statement, nor has the City requested that the Auditor consent to the use of such financial statements in this Preliminary Official Statement. Although the inclusion of the financial statements in this Preliminary Official Statement is not intended to demonstrate the fiscal condition of the City since the date of the financial statements, in connection with the issuance of the Bonds, the City represents that there have been no material adverse change in the financial position or results of operations of the City, nor has the City incurred any material liabilities, which would make such financial statements misleading.

Copies of the complete audited financial statements for the past three years and the current budget are available upon request from Ehlers.

**CITY OF MAHNOMEN
MAHNOMEN, MINNESOTA**

AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

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CITY OF MAHNOMEN
ROSTER OF CITY OFFICIALS
DECEMBER 31, 2022

Julie Hanson	Mayor
LuAnn Durant	Councilor
Deborah McArthur	Councilor
Duane Schouveiller	Councilor
Kelly Phillips	Councilor
Taylor Vonderharr	City Administrator
Judy I. Berger	Assistant City Administrator

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council
City of Mahanomen
Mahanomen, Minnesota

Report on the Audit of the Financial Statements

Qualified and Unmodified Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Mahanomen, Minnesota, as of and for the year ended December 31, 2022 and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Summary of Opinions

<u>Opinion Unit</u>	<u>Type of Opinion</u>
Governmental Activities	Qualified
Business-Type Activities	Unmodified
General Fund	Unmodified
Debt Service Fund	Unmodified
Capital Projects Fund	Unmodified
TIF Districts Fund	Unmodified
Water Fund	Unmodified
Sewer Fund	Unmodified
Liquor Stores	Unmodified
Aggregate Remaining Fund Information	Unmodified

Qualified Opinion on the Governmental Activities

In our opinion, except for the effects of the matter described in the Basis for Qualified and Unmodified Opinions section of our report, the financial statements referred to above present fairly, in all material respects, the financial position of the Governmental Activities of the City of Mahanomen, Minnesota as of December 31, 2022, and the changes in the financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions on Business-Type Activities, General Fund, Debt Service Fund, Capital Projects Fund, TIF Districts Fund, Water Fund, Sewer Fund, Liquor Stores, and Aggregate Remaining Fund Information

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, General Fund, Debt Service Fund, Capital Projects Fund, TIF Districts Fund, Water Fund, Sewer Fund, Liquor Stores, and aggregate remaining fund information the City of Mahanomen, Minnesota as of December 31, 2022, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Qualified and Unmodified Opinions

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

Matter Giving Rise to the Qualified Opinion on the Governmental Activities

Management has not adopted Governmental Accounting Standards Board No. 68, *Accounting and Financial Reporting for Pensions* for the Mahanomen Fire Relief Association. Accounting principles generally accepted in the United States of America require that assets, liabilities, deferred outflows of resources, and deferred inflows of resources for defined benefit pension plans have an actuarial study to determine the effect on net position. The amount by which this departure would affect the assets, liabilities, deferred outflows of resources, deferred inflows of resources, and net position has not been determined.

Emphasis of Matter

As described in Note 8, the City adopted new accounting guidance, GASB Statement No. 87, *Leases*. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of 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 of Mahanomen, Minnesota's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than 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 of Mahanomen, Minnesota's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Mahanomen, Minnesota's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information, schedule of City's contributions to PERA retirement fund, and schedule of City's and non-employer proportionate share of the net pension liability as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management

about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Mahanomen, Minnesota's basic financial statements. The combining statements and combining schedule of revenues, expenditures and changes in fund net position – liquor stores are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining statements and schedule of revenues, expenditures and changes in fund net position – liquor stores 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 statements and schedule of revenues, expenditures and changes in fund net position – liquor stores are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2023 on our consideration of the City of Mahanomen, Minnesota'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 of Mahanomen, Minnesota's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Mahanomen, Minnesota's internal control over financial reporting and compliance.



BRADY, MARTZ & ASSOCIATES, P.C.
GRAND FORKS, NORTH DAKOTA

June 30, 2023

CITY OF MAHNOMEN
STATEMENT OF NET POSITION
DECEMBER 31, 2022

	Primary Government		
	Governmental	Business-Type	
	Activities	Activities	Total
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 1,444,147	\$ 1,960,157	\$ 3,404,304
Investments	2,958,692	200,000	3,158,692
Accounts Receivable (Net of Allowance for Uncollectibles of \$4,500 for Governmental & \$5,000 for Business-Type)	7,721	69,399	77,120
Taxes and Special Assessments Receivable	33,277	37,016	70,293
Loans Receivable	3,744	-	3,744
Accrued Interest Receivable	9,844	888	10,732
Short Term Lease Receivable	32,324	-	32,324
Due from Other Governments	4,966	-	4,966
Internal Balances	111,413	(111,413)	-
Inventory	-	149,538	149,538
Prepaid Items	14,324	13,810	28,134
Total Current Assets	<u>4,620,452</u>	<u>2,319,395</u>	<u>6,939,847</u>
Non-Current Assets:			
Capital Assets:			
Non Depreciable:			
Land	205,177	210,574	415,751
Construction in Progress	511,819	137,630	649,449
Depreciable:			
Utility Systems and Buildings	2,885,309	14,609,373	17,494,682
Machinery and Equipment	1,748,298	329,571	2,077,869
Infrastructure	5,945,698	-	5,945,698
Less Accumulated Depreciation	<u>(5,127,164)</u>	<u>(5,032,721)</u>	<u>(10,159,885)</u>
Total Capital Assets (Net of Accumulated Depreciation)	<u>6,169,137</u>	<u>10,254,427</u>	<u>16,423,564</u>
Other Non-Current Assets			
Loans Receivable	10,973	-	10,973
Long Term Lease Receivable	311,599	-	311,599
Total Non-Current Liabilities	<u>352,572</u>	<u>-</u>	<u>352,572</u>
Total Assets	<u>11,142,161</u>	<u>12,573,822</u>	<u>23,715,983</u>
DEFERRED OUTFLOWS OF RESOURCES			
Cost Sharing Defined Benefit Pension Plan	44,584	110,114	154,698
Total Deferred Outflows of Resources	<u>44,584</u>	<u>110,114</u>	<u>154,698</u>

See Notes to the Basic Financial Statements

CITY OF MAHNOMEN
STATEMENT OF NET POSITION - CONTINUED
DECEMBER 31, 2022

	Primary Government		
	Governmental	Business-Type	
	Activities	Activities	Total
LIABILITIES			
Current Liabilities:			
Accounts Payable	27,080	6,496	33,576
Construction and Retainage Payable	325,280	38,063	363,343
Compensated Absences	10,222	27,336	37,558
Accrued Interest Payable	29,635	59,890	89,525
Unearned Revenue	237,005	-	237,005
Meter Deposits Payable	-	4,100	4,100
Due to Other Governments	-	5,890	5,890
Bonds and Notes Payable - Current Portion	1,852,441	294,210	2,146,651
Total Current Liabilities	<u>2,481,663</u>	<u>435,985</u>	<u>2,917,648</u>
Non-Current Liabilities:			
Bonds and Notes Payable (Net of Current)	3,097,503	6,140,688	9,238,191
Net Pension Liability	150,649	372,073	522,722
Total Non-Current Liabilities	<u>3,248,152</u>	<u>6,512,761</u>	<u>9,760,913</u>
Total Liabilities	<u>5,729,815</u>	<u>6,948,746</u>	<u>12,678,561</u>
DEFERRED INFLOWS OF RESOURCES			
Cost Sharing Defined Benefit Pension Plan	2,211	5,460	7,671
Leases	363,875	-	363,875
Total Deferred Inflows of Resources	<u>366,086</u>	<u>5,460</u>	<u>371,546</u>
NET POSITION			
Net Investment in Capital Assets	1,226,918	3,819,529	5,046,447
Restricted for Debt Service	188,707	-	188,707
Unrestricted	3,675,219	1,910,201	5,585,420
Total Net Position	<u>\$ 5,090,844</u>	<u>\$ 5,729,730</u>	<u>\$10,820,574</u>

See Notes to the Basic Financial Statements

CITY OF MAHNOMEN
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2022

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
Primary Government:							
Governmental Activities:							
General Government	\$ 361,925	\$ -	\$ 55,758	\$ -	\$ (306,167)	\$ -	\$ (306,167)
Public Safety	548,613	61,513	18,399	-	(468,701)	-	(468,701)
Public Works	377,185	-	9,655	-	(367,530)	-	(367,530)
Culture and Recreation	60,553	-	-	-	(60,553)	-	(60,553)
Economic Development	162,124	-	14,256	1,900,000	1,752,132	-	1,752,132
Interest and Fees	119,731	-	-	-	(119,731)	-	(119,731)
Total Governmental Activities	1,630,131	61,513	98,068	1,900,000	429,450	-	429,450
Business-type Activities:							
Water	406,180	443,404	-	1,237	-	38,461	38,461
Sewer	326,164	358,882	-	1,012	-	33,730	33,730
Liquor Stores	529,481	537,454	20,000	-	-	27,973	27,973
Storm Sewer	8,944	1,967	-	-	-	(6,977)	(6,977)
Total Business-type Activities	1,270,769	1,341,707	20,000	2,249	-	93,187	93,187
Total Primary Government	\$ 2,900,900	\$ 1,403,220	\$ 118,068	\$ 1,902,249	429,450	93,187	522,637
General Revenues:							
Property Taxes - General					253,285	-	253,285
Property Taxes - Debt Service					36,176	-	36,176
Property Taxes - TIF District					6,365	-	6,365
State Aid Distribution					894,465	-	894,465
Other Revenues					105,822	16,496	122,318
Unrestricted Investment Earnings					33,513	5,004	38,517
Transfers					(1,900,000)	1,900,000	-
Total General Revenues					(570,374)	1,921,500	1,351,126
Change in Net Position					(140,924)	2,014,687	1,873,763
Net Position - Beginning					5,231,768	3,715,043	8,946,811
Net Position - Ending					\$ 5,090,844	\$ 5,729,730	\$ 10,820,574

See Notes to the Basic Financial Statements

CITY OF MAHNOMEN
BALANCE SHEET – GOVERNMENTAL FUNDS
DECEMBER 31, 2022

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>TIF Districts</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash and Cash Equivalents	\$ 1,227,217	\$ 216,930	\$ -	\$ -	\$ 1,444,147
Investments	2,958,692	-	-	-	2,958,692
Receivables (Net of Allowance for Uncollectibles)	7,721	-	-	-	7,721
Accrued Interest Receivable	9,844	-	-	-	9,844
Short Term Lease Receivable	32,324	-	-	-	32,324
Long Term Lease Receivable	341,599	-	-	-	341,599
Due from Other Funds	151,646	-	-	-	151,646
Due from Other Governments	4,966	-	-	-	4,966
Taxes Receivable	8,455	1,412	-	-	9,867
Special Assessments Receivable	23,410	-	-	-	23,410
Prepaid Items	14,324	-	-	-	14,324
Total Assets	\$ 4,780,198	\$ 218,342	\$ -	\$ -	\$ 4,998,540
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES					
Liabilities:					
Accounts Payable	\$ 27,080	\$ -	\$ -	\$ -	\$ 27,080
Construction and Retainage Payable	216,430	-	108,850	-	325,280
Unearned Revenues	237,005	-	-	-	237,005
Due to General Fund	-	-	20,686	19,547	40,233
Total Liabilities	480,515	-	129,536	19,547	629,598
Deferred Inflows of Resources:					
Unavailable Revenue	31,865	1,412	-	-	33,277
Deferred Inflows of Resources - Leases	363,875	-	-	-	363,875
Total Deferred Inflows of Resources	395,740	1,412	-	-	397,152
Fund Balances:					
Nonspendable	14,324	-	-	-	14,324
Restricted for Debt Service	-	216,930	-	-	216,930
Committed for Fire Vehicle and Equipment Replacement	194,053	-	-	-	194,053
Assigned for Capital Projects	2,000,000	-	-	-	2,000,000
Unassigned	1,695,566	-	(129,536)	(19,547)	1,546,483
Total Fund Balances	3,903,943	216,930	(129,536)	(19,547)	3,971,790
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 4,780,198	\$ 218,342	\$ -	\$ -	\$ 4,998,540

See Notes to the Basic Financial Statements

CITY OF MAHNOMEN
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2022

Total Governmental Funds Balance \$ 3,971,790

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

Capital assets used in governmental activities are not financial resources and therefore not reported in the governmental funds.

Capital Assets	\$ 11,296,301	
Accumulated Depreciation	<u>(5,127,164)</u>	6,169,137

Other long-term assets are not available to pay for current-period expenditures and therefore are unavailable in the funds.

Taxes Receivable	9,867	
Special Assessments Receivable	<u>23,410</u>	33,277

Other long-term asset is not available to pay for current-period expenditures and therefore is not reported in the governmental funds

Loans Receivable	14,717	14,717
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Net deferred outflows (inflows) of resources relating to the cost sharing defined benefit plans in the governmental activities are not financial resources and, therefore, are not reported as deferred outflows (inflows) of resources in the governmental funds.

Deferred Outflows of Resources	44,584	
Deferred Inflows of Resources	<u>(2,211)</u>	42,373

Short-term liabilities not due and payable in the current period and therefore are not included in the governmental funds:

Accrued Interest	(29,635)	(29,635)
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Long-term liabilities not due and payable in the current period and therefore are not included in the governmental funds:

Bonds Payable	(4,949,944)	
Net Pension Liability	(150,649)	
Compensated Absences	<u>(10,222)</u>	<u>(5,110,815)</u>

Net Position of Governmental Activities		\$ <u>5,090,844</u>
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CITY OF MAHNOMEN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2022

	General	Debt Service	Capital Projects	TIF Districts	Total Governmental Funds
REVENUES					
Property Taxes	\$ 252,438	\$ 36,176	\$ -	\$ 6,365	\$ 294,979
Intergovernmental	937,592	-	1,900,000	-	2,837,592
Charges for Services	61,513	-	-	-	61,513
Interest Earnings	11,637	-	21,884	-	33,521
Contributions and Donations	1,267	-	-	-	1,267
Special Assessment	6,074	-	-	-	6,074
Nongovernmental Grants	67,158	-	-	-	67,158
Other Revenue	78,155	-	15,000	-	93,155
Total Revenues	<u>1,415,834</u>	<u>36,176</u>	<u>1,936,884</u>	<u>6,365</u>	<u>3,395,259</u>
EXPENDITURES					
Current:					
General Government	458,763	-	-	-	458,763
Public Safety	460,533	-	-	-	460,533
Public Works	169,022	-	-	-	169,022
Culture and Recreation	60,104	-	-	-	60,104
Economic Development	73,700	-	-	-	73,700
Capital Outlay	637,345	-	470,826	-	1,108,171
Debt Service and Revolving Loan:					
Principal Retirement	17,731	-	-	-	17,731
Interest and Fees	309	95,289	31,043	-	126,641
Total Expenditures	<u>1,877,507</u>	<u>95,289</u>	<u>501,869</u>	<u>-</u>	<u>2,474,665</u>
Excess of Revenues over Expenditures	<u>(461,673)</u>	<u>(59,113)</u>	<u>1,435,015</u>	<u>6,365</u>	<u>920,594</u>
OTHER FINANCING SOURCES (USES)					
Transfers In	1,003,576	-	6,261	1,116	1,010,953
Transfers Out	(1,116)	(6,261)	(1,003,576)	-	(1,010,953)
Bond Proceeds	-	-	7,805,000	-	7,805,000
Bond Refunded	-	-	(9,705,000)	-	(9,705,000)
Total Other Financing Sources	<u>1,002,460</u>	<u>(6,261)</u>	<u>(2,897,315)</u>	<u>1,116</u>	<u>(1,900,000)</u>
Net Change in Fund Balances	540,787	(65,374)	(1,462,300)	7,481	(979,406)
Fund Balances - Beginning	<u>3,363,156</u>	<u>282,304</u>	<u>1,332,764</u>	<u>(27,028)</u>	<u>4,951,196</u>
Fund Balances - Ending	<u>\$ 3,903,943</u>	<u>\$ 216,930</u>	<u>\$ (129,536)</u>	<u>\$ (19,547)</u>	<u>\$ 3,971,790</u>

See Notes to the Basic Financial Statements

CITY OF MAHNOMEN
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2022

Net Change in Fund Balance - Total Governmental Funds \$ (979,406)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Capital Outlays	\$ 158,678	
Construction in Process	930,486	
Depreciation	<u>(253,553)</u>	835,611

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.

Taxes Receivable	(1,469)	
Loans Receivable	(6,365)	
Special Assessments Receivable	<u>(4,575)</u>	(12,409)

Change in net pension liability (69,419)

Change in deferred outflows and inflows of resources related to the net pension liability. 60,301

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds 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.

Change in Accrued Interest 6,904

Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.

Bonds Payable	17,731	
Compensated Absences	<u>(237)</u>	
Total		<u>17,494</u>

Changes in Net Position \$ (140,924)

CITY OF MAHNOMEN
STATEMENT OF NET POSITION – PROPRIETARY FUNDS
DECEMBER 31, 2022

	Business-type Activities-Enterprise Funds				
	Water	Sewer	Liquor Stores	Nonmajor Funds	Total
ASSETS					
Current Assets:					
Cash and Cash Equivalents	\$ 938,499	\$ 533,666	\$ 303,011	\$ 184,981	\$ 1,960,157
Investments	-	-	200,000	-	200,000
Accounts Receivable (Net of Allowance for Uncollectibles)	34,542	34,857	-	-	69,399
Special Assessments Receivable	20,359	16,657	-	-	37,016
Accrued Interest Receivable	-	-	888	-	888
Inventory	15,211	1,079	133,248	-	149,538
Prepaid Expenses	2,490	2,483	8,837	-	13,810
Total Current Assets	<u>1,011,101</u>	<u>588,742</u>	<u>645,984</u>	<u>184,981</u>	<u>2,430,808</u>
Non-Current Assets:					
Capital Assets:					
Land	12,850	91,000	106,724	-	210,574
Machinery and Equipment	36,672	56,211	236,688	-	329,571
Utility Systems and Buildings	7,875,328	5,495,132	832,755	406,158	14,609,373
Construction In Progress	111,300	26,330	-	-	137,630
Less Accumulated Depreciation	(1,900,501)	(2,440,360)	(643,505)	(48,355)	(5,032,721)
Total Capital Assets (Net of Accumulated Depreciation)	<u>6,135,649</u>	<u>3,228,313</u>	<u>532,662</u>	<u>357,803</u>	<u>10,254,427</u>
Total Assets	<u>7,146,750</u>	<u>3,817,055</u>	<u>1,178,646</u>	<u>542,784</u>	<u>12,685,235</u>
Deferred Outflows of Resources					
Cost Sharing Defined Benefit Pension Plan	28,355	21,658	60,101	-	110,114
Total Deferred Outflows of Resources	<u>28,355</u>	<u>21,658</u>	<u>60,101</u>	<u>-</u>	<u>110,114</u>

See Notes to the Basic Financial Statements

CITY OF MAHNOMEN
STATEMENT OF NET POSITION – PROPRIETARY FUNDS - CONTINUED
DECEMBER 31, 2022

	Business-type Activities-Enterprise Funds				
	Water	Sewer	Liquor Stores	Nonmajor Funds	Total
LIABILITIES					
Current Liabilities:					
Accounts Payable	39,995	1,223	3,341	-	44,559
Compensated Absences	6,526	3,724	17,086	-	27,336
Accrued Interest Payable	37,928	19,031	-	2,931	59,890
Meter Deposits Payable	4,100	-	-	-	4,100
Due to Other Governments	296	-	5,594	-	5,890
Due to General Fund	-	-	111,413	-	111,413
Revenue Bonds Payable- Current Portion	186,700	101,694	-	5,816	294,210
Total Current Liabilities	<u>275,545</u>	<u>125,672</u>	<u>137,434</u>	<u>8,747</u>	<u>547,398</u>
Non-Current Liabilities:					
Revenue Bonds Payable (Net of Current)	3,948,150	1,897,322	-	295,216	6,140,688
Net Pension Liability	95,815	73,181	203,077	-	372,073
Total Non-Current Liabilities	<u>4,043,965</u>	<u>1,970,503</u>	<u>203,077</u>	<u>295,216</u>	<u>6,512,761</u>
Total Liabilities	<u>4,319,510</u>	<u>2,096,175</u>	<u>340,511</u>	<u>303,963</u>	<u>7,060,159</u>
Deferred Inflows of Resources					
Cost Sharing Defined Benefit Pension Plan	1,406	1,074	2,980	-	5,460
Total Deferred Inflows of Resources	<u>1,406</u>	<u>1,074</u>	<u>2,980</u>	<u>-</u>	<u>5,460</u>
NET POSITION					
Net Investment in Capital Assets	2,000,799	1,229,297	532,662	56,771	3,819,529
Unrestricted	853,390	512,167	362,594	182,050	1,910,201
Total Net Position	<u>\$ 2,854,189</u>	<u>\$ 1,741,464</u>	<u>\$ 895,256</u>	<u>\$ 238,821</u>	<u>\$ 5,729,730</u>

See Notes to the Basic Financial Statements

CITY OF MAHNOMEN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2022

	Business-type Activities-Enterprise Funds				
	Water	Sewer	Liquor Stores	Non Major Funds	Totals
Operating Revenues:					
Charges for Services	\$ 443,404	\$ 358,882	\$ 1,468,593	\$ 1,967	\$ 2,272,846
Less: Cost of Sales	-	-	(931,139)	-	(931,139)
Total Operating Revenues	<u>443,404</u>	<u>358,882</u>	<u>537,454</u>	<u>1,967</u>	<u>1,341,707</u>
Operating Expenses:					
Salaries & Benefits	141,921	126,234	306,772	-	574,927
Insurance	5,972	6,205	11,448	-	23,625
Chemicals	12,106	2,452	-	-	14,558
Utilities	19,885	9,538	27,888	-	57,311
Maintenance and Repair	17,164	16,941	12,820	-	46,925
Testing	876	6,625	-	-	7,501
Supplies	2,333	-	20,458	-	22,791
Meters Expense	7,283	-	-	-	7,283
Depreciation	130,790	116,968	24,661	6,013	278,432
Freight	-	-	4,572	-	4,572
Professional Fees	1,775	2,025	11,297	-	15,097
Office Expense	774	774	189	-	1,737
Other	5,225	5,419	109,376	-	120,020
Total Operating Expenses	<u>346,104</u>	<u>293,181</u>	<u>529,481</u>	<u>6,013</u>	<u>1,174,779</u>
Operating Income (Loss)	<u>97,300</u>	<u>65,701</u>	<u>7,973</u>	<u>(4,046)</u>	<u>166,928</u>
Non-Operating Revenues (Expenses):					
Intergovernmental	-	-	20,000	-	20,000
Interest Income	399	-	4,257	348	5,004
Interest Expense	(60,076)	(32,983)	-	(2,931)	(95,990)
Miscellaneous	-	-	16,496	-	16,496
Special Assessments	1,237	1,012	-	-	2,249
Total Non-Operating Revenue (Expenses)	<u>(58,440)</u>	<u>(31,971)</u>	<u>40,753</u>	<u>(2,583)</u>	<u>(52,241)</u>
Income Before Capital Contributions	38,860	33,730	48,726	(6,629)	114,687
Capital Contributions	<u>1,250,000</u>	<u>650,000</u>	<u>-</u>	<u>-</u>	<u>1,900,000</u>
Changes in Net Position	1,288,860	683,730	48,726	(6,629)	2,014,687
Total Net Position - Beginning	<u>1,565,329</u>	<u>1,057,734</u>	<u>846,530</u>	<u>245,450</u>	<u>3,715,043</u>
Total Net Position - Ending	<u>\$ 2,854,189</u>	<u>\$ 1,741,464</u>	<u>\$ 895,256</u>	<u>\$ 238,821</u>	<u>\$ 5,729,730</u>

See Notes to the Basic Financial Statements

CITY OF MAHNOMEN
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2022

	Business-type Activities-Enterprise Funds				
	Water	Sewer	Liquor Stores	Non Major Funds	Totals
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from Customers and Users	\$ 448,444	\$ 363,792	\$ 1,468,593	\$ 1,967	\$ 2,282,796
Other Operating Cash Receipts	-	-	20,000	-	20,000
Payments to Suppliers	(35,509)	(47,278)	(1,161,034)	-	(1,243,821)
Payments to Employees	(144,283)	(122,415)	(292,831)	-	(559,529)
Net Cash Provided (Used) by Operating Activities	<u>268,652</u>	<u>194,099</u>	<u>34,728</u>	<u>1,967</u>	<u>499,446</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Due to Other Funds	-	-	(38,199)	-	(38,199)
Other Income	-	-	16,496	-	16,496
Special Assessments	4,438	3,632	-	-	8,070
Economic Development Loan Repayments	-	-	-	12,846	12,846
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>4,438</u>	<u>3,632</u>	<u>(21,703)</u>	<u>12,846</u>	<u>(787)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Acquisition of Property and Equipment	(82,759)	(46,303)	(21,123)	-	(150,185)
Interest Paid on Capital Debt	(40,086)	(24,119)	-	-	(64,205)
Principal Payments on Long-Term Debt	(67,000)	(70,000)	-	-	(137,000)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(189,845)</u>	<u>(140,422)</u>	<u>(21,123)</u>	<u>-</u>	<u>(351,390)</u>
CASH FLOWS PROVIDED (USED) BY INVESTING ACTIVITIES					
Interest Income	399	-	4,257	348	5,004
Net Cash Provided (Used) by Investing Activities	<u>399</u>	<u>-</u>	<u>4,257</u>	<u>348</u>	<u>5,004</u>
Net Increase (Decrease) in Cash and Investments	83,644	57,309	(3,841)	15,161	152,273
Cash and Investments, January 1	<u>854,855</u>	<u>476,357</u>	<u>506,852</u>	<u>169,820</u>	<u>2,007,884</u>
Cash and Investments, December 31	<u>\$ 938,499</u>	<u>\$ 533,666</u>	<u>\$ 503,011</u>	<u>\$ 184,981</u>	<u>\$ 2,160,157</u>

See Notes to the Basic Financial Statements

CITY OF MAHNOMEN
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2022

	Business-type Activities-Enterprise Funds				
	Water	Sewer	Liquor Stores	Non Major Funds	Totals
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:					
Operating Income (Loss)	\$ 97,300	\$ 65,701	\$ 7,973	\$ (4,046)	\$ 166,928
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:					
Depreciation Expense	130,790	116,968	24,661	6,013	278,432
Operating Grants	-	-	20,000	-	20,000
Changes in Assets and Liabilities:					
Accounts Receivable	3,640	4,910	-	-	8,550
Accrued Interest Receivable	-	-	(511)	-	(511)
Prepaid Insurance	(8)	(7)	(267)	-	(282)
Inventory	836	3,960	(15,600)	-	(10,804)
Due to Other Governments	39	-	(1,278)	-	(1,239)
Accounts Payable	37,017	(1,252)	(14,191)	-	21,574
Compensated Absences	(8,162)	(610)	1,650	-	(7,122)
Net Pension Liability	44,152	33,722	93,579	-	171,453
Deferred Pension Inflows	(46,384)	(35,427)	(98,310)	-	(180,121)
Deferred Pension Outflows	8,032	6,134	17,022	-	31,188
Meter Deposits Payable	1,400	-	-	-	1,400
Net Cash Provided (Used) by Operating Activities	\$ 268,652	\$ 194,099	\$ 34,728	\$ 1,967	\$ 499,446
Reconciliation of Cash, Cash Equivalents, and Investments					
Cash and Cash Equivalents	\$ 938,499	\$ 533,666	\$ 303,011	\$ 184,981	\$ 1,960,157
Investments	-	-	200,000	-	200,000
Total Cash, Cash Equivalents, and Investments	\$ 938,499	\$ 533,666	\$ 503,011	\$ 184,981	\$ 2,160,157
Noncash Capital Activities					
Contribution of Capital Assets from Governmental Fund	\$ 1,250,000	\$ 650,000	\$ -	\$ -	\$ 1,900,000
Acquisition of Capital Assets through Debt	2,831,068	1,329,848	-	301,032	4,461,948

See Notes to the Basic Financial Statements

CITY OF MAHNOMEN
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Mahanomen operates under a city council form of government. The financial statements of the City of Mahanomen have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

Reporting Entity

The City's policy is to include all funds, organizations, institutions, agencies, departments and offices over which the Council exercises significant influence over and/or is financially accountable, or the organizations for which the nature and significance of their relationships with the City is such that exclusion would cause the City's financial statements to be misleading. The criteria used to determine if the primary government is financially accountable for a component unit includes whether or not the primary government appoints the voting majority of the potential component unit, or is fiscally dependent upon the potential component unit.

Based on the preceding criteria, there are no organizations that have been included in the accompanying financial statements.

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 non-fiduciary activities of the City. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. 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, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not included among program revenues are reported as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Fund Accounting

The accounts of the City are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts, which comprise its assets, liabilities, deferred inflows/outflows of resources, net position, revenues, and expenditures or expenses, as appropriate.

CITY OF MAHNOMEN
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2022

The City has the following funds:

1) Governmental Fund Types

Governmental fund types are those funds through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used; current liabilities are assigned to the fund from which they are paid; and the difference between governmental fund assets and liabilities, the fund equity, is referred to as "fund balance." The measurement focus is upon determination of changes in financial position, rather than upon net income determination. The following comprise the City's major governmental funds:

- a) General Fund — The General Fund is the general operating fund of the City. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. Many of the more important activities of the City, including operation of the City's general service departments such as public safety are accounted for in this fund.
- b) Debt Service Fund — The Debt Service Fund accounts for receipt of property taxes used for the payment of bond principal, interest and fees.
- c) Capital Projects Fund — The Capital Projects Fund accounts for all activities associated with the acquisition and construction of specific capital projects.
- d) TIF Districts — The Tax Increment Financing Districts were established to promote economic development and redevelopment within the City.

2) Proprietary Fund Types

Proprietary fund types are used to account for a government's ongoing organizations and activities, which are similar to those often found in the private sector. The measurement focus is upon income determination, financial position, and cash flows.

Enterprise Funds are used to finance and account for the acquisition, operation, and maintenance of the City's facilities and services, which are supported primarily by user charges. The following comprise the City's major enterprise funds:

- a) Water Fund - To account for the operation and maintenance of the City's Water Utility.
- b) Sewer System Fund - To account for the operation and maintenance of the City's Sanitary Sewer System.
- c) Liquor Stores Fund - To account for the operation of the City's two liquor stores.

The other enterprise funds the City considers non-major are:

- d) Storm Water Fund - To account for the operations and maintenance of the City's Storm Water System.
- e) Revolving Loan Fund - The Revolving Loan Fund accounts for the economic development of the City.

CITY OF MAHNOMEN
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2022

Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the Proprietary Fund and Fiduciary 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.

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.

In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of these revenues. In one, monies must be expended on the specific purpose or project before any amounts will be paid to the City; therefore, revenues are recognized based upon the expenditures recorded and the availability criteria. In the other, monies are virtually unrestricted as to the purpose of expenditure, and are usually revocable only for failure to comply with prescribed requirements. These resources are reflected as revenues at the time of receipt, or earlier if the susceptible to accrual criteria is met.

Licenses and permits, fines and forfeitures, charges for sales and services (other than utility), and miscellaneous revenues are generally recorded as revenue when received in cash because they are generally not measurable until actually received. In the category of use of money and property, property rentals are recorded as revenue when received in cash, but investment earnings are recorded as earned, since they are measurable and available.

Property taxes are recognized as a receivable at the time an enforceable legal claim is established. Property taxes are considered available if received within 60 days of year-end.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary Funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a Proprietary Fund's principal ongoing operations.

The principal operating revenues of the City's enterprise funds and internal service funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

CITY OF MAHNOMEN
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2022

Budgets

The City submits a proposed budget and levy to the County Auditor's office by September 15. Truth in Taxation public hearings are held in December. The City must prepare a final budget and certify the levy to the County by December 31. A copy of the final budget and prior year revenue and expenditures must be submitted to the State Auditor's office.

Cash and Cash Equivalents

Cash balances from all funds are combined and invested to the extent available in authorized investments. Earnings from such investments are allocated to respective funds on the basis of applicable cash balance participation by each fund.

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, money market accounts and investments with original maturities of three months or less. The Minnesota Municipal Investment Pool is also considered a cash equivalent as it is a money market fund. It is an external investment pool not registered with the Securities Exchange Commission (SEC) that follows the same regulatory rules of the SEC under Rule 2.a.7. The fair value of the city's position is the same value as the pool shares.

Capital Assets

Capital assets, including land, buildings, improvements, infrastructure, and equipment assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City of Mahnomen as assets with an initial useful life of one year or greater and a cost of \$5,000 or more. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Buildings, utility systems, infrastructure and equipment assets are depreciated using the straight-line method of depreciation over the following estimated useful lives:

Buildings and Systems	10-50 Years
Machinery and Equipment	5-20 Years
Infrastructure	25-40 Years

Leases

The City is a lessor for a noncancellable lease of a building. The City recognizes a lease receivable and a deferred inflow of resources in the financial statements.

At the commencement of a lease, the City initially measures the lease receivable at the present value of payments expected to be received during the lease term.

CITY OF MAHNOMEN
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2022

Subsequently, the lease receivable is reduced by the principal portion of lease payments received. The deferred inflow of resources is initially measured as the initial amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date. Subsequently, the deferred inflow of resources is recognized as revenue over the life of the lease term.

Key estimates and judgments include how the City determines (1) the discount rate it uses to discount the expected lease receipts to present value, (2) lease term, and (3) lease receipts.

- The City uses its estimated incremental borrowing rate as the discount rate for leases. The City has made an accounting policy election to use a risk-free rate based on US Treasury T-bill rate as of the lease commencement.
- The lease term includes the noncancellable period of the lease. Lease receipts included in the measurement of the lease receivable is composed of fixed payments from the lessee.

The City monitors changes in circumstances that would require a remeasurement of its lease, and will remeasure the lease receivable and deferred inflows of resources if certain changes occur that are expected to significantly affect the amount of the lease receivable.

Investments

Investments are reported at fair value. Securities traded on the national or international exchange are valued at the last reported sales price at current exchange rates.

Fair Value Measurements – The Organization accounts for all assets and liabilities that are being measured and reported on a fair value basis in accordance with GAAP. GAAP defines fair value, establishes a framework for measuring fair value, and expands disclosure about fair value measurements.

When fair value measurements are required, various data is used in determining those values. This statement requires that assets and liabilities that are carried at fair value must be classified and disclosed in the following levels based on the nature of the data used.

- Level 1: Quoted market prices in active markets for identical assets or liabilities.
- Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data.
- Level 3: Unobservable inputs that are not corroborated by market data.

Inventories

Inventories are stated at the lower of cost or net realizable value and consist of consumable supplies. The cost of these supplies is recorded as an expense at the time they are relieved from inventory for use. Inventories are determined by actual count and priced on the first-in, first-out basis.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2022 are recorded as prepaid items.

CITY OF MAHNOMEN
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2022

Utility Billings Receivable

Utility billings receivables are carried at the original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Utility billing receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received. A utility billing receivable is considered to be past due if any portion of the receivable balance is outstanding for more than 30 days. The largest customer accounts for approximately 21 percent of the utility sales.

Deferred Outflows/Inflows 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 resource (expense/expenditure) until then. The City has one item reported on the statement of net position as *cost sharing defined benefit pension plan*, which represents actuarial differences within the PERA pension plan as well as amounts paid to the plan after the measurement date.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has three types of items that qualify for reporting in this category. The governmental funds report unavailable revenues from property taxes and special assessments. These amounts are unavailable and recognized as an inflow of resources in the period that the amounts become available. The City also has one item reported on the statement of net position as *cost sharing defined benefit pension plan*, which represents actuarial differences within the PERA pension plan. The City also has another item *leases*, which is reported as a deferred inflow of resource for both the Balance Sheet – Governmental Funds and the Statement of Net Position as these amounts represent future inflows of lease receivables.

Interfund Transactions

Transactions among City funds that would be treated as revenues and expenditures or expenses if they involved organizations external to City government are accounted for as revenues and expenditures or expenses in the funds involved.

Transactions, which constitute reimbursements to a fund for expenditures initially made from it, which are properly applicable to another fund, are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the reimbursed fund.

Transactions, which constitute the transfer of resources from a fund receiving revenues to a fund through which the revenues are to be expended, are separately reported in the respective funds' operating statements.

Activity between funds that are representative of lending/borrowing arrangements at the end of the fiscal year are referred to as "due to/from other funds" or "advances 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".

CITY OF MAHNOMEN
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2022

Compensated Absences

City employees accumulate vacation leave hours for subsequent use or for payment upon termination, death or retirement. City employees can also accumulate sick leave. Sick leave will accumulate one day per month up to a maximum of 120 days. Sick leave beyond the 120-day maximum will be banked and computed as severance pay to be payable under certain circumstances of employment termination.

All vacation and sick leave is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

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.

Long-Term Debt

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

Fund Balance

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources. The non-spendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form – prepaid items or inventories; or (b) legally or contractually required to be maintained intact.

The spendable portion of the fund balance comprises the remaining four classifications: restricted, committed, assigned, and unassigned.

Restricted – consists of amounts related to externally imposed constraints established by creditors, grantors or contributors; or constraints imposed by law through constitutional provisions or enabling legislation.

CITY OF MAHNOMEN
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2022

Committed – consists of internally imposed constraints. These constraints are established by formal action of the City Council.

Assigned – consists of internally imposed constraints. These constraints reflect the specific purpose for which it is the City's intended use. These constraints are established by the City Council. Pursuant to Council resolution, the City's Administrator is authorized to establish assignments of fund balance.

Unassigned – is the residual classification for the general fund and also reflects negative residual amounts in other funds.

When both restricted and unrestricted resources are available for use, it is the City's policy to first use restricted resources, then unrestricted resources—committed, assigned, and unassigned—in order as needed.

Net Position

Net position represents the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources in the City's financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any long-term debt attributable to the acquisition, construction, or improvement of those assets.

Restricted Net Position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Unrestricted Net Position is the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Use of Estimates

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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Change in Accounting Principles

The City implemented GASB Statement No. 87, *Leases* in the fiscal year ended December 31, 2022. GASB Statement No. 87 establishes a single model for lease accounting based on the foundation principle that leases are financings of the right to use an underlying asset.

The adoption of GASB 87 resulted in the recognition of a lease receivable and deferred inflow of resource of \$405,068 as of January 1, 2022. Results for periods prior to December 31, 2022 continue to be reported in accordance with the City's historical accounting treatment. See note 8 for expanded disclosures regarding the City's leases.

CITY OF MAHNOMEN
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2022

NOTE 2 DEPOSITS AND INVESTMENTS

At December 31, 2022, the City had the following deposits and investments:

	Governmental Activities	Proprietary Activities	Total
Cash	\$ 1,444,147	\$ 1,960,157	\$ 3,404,304
Investments	<u>2,958,692</u>	<u>200,000</u>	<u>3,158,692</u>
Total Cash and Investments	<u>\$ 4,402,839</u>	<u>\$ 2,160,157</u>	<u>\$ 6,562,996</u>

The City may invest idle funds as authorized in Minnesota Statutes, as follows:

- (a) City obligations or obligations guaranteed by the United States or its agencies
- (b) Shares of investment companies registered under the Federal Investment Company Act of 1940 and whose only investments are in securities described in (a) above.
- (c) General obligations of the State of Minnesota or any of its municipalities.
- (d) Bankers Acceptance of United States banks eligible for purchases by the Federal Reserve System.
- (e) Commercial paper issued by United States corporations or their Canadian subsidiaries, of the highest quality, and maturing in 270 days or less.
- (f) Repurchase or reverse repurchase agreements with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.
- (g) Futures contracts sold under authority of Minnesota Statutes 471.56, Subd. 5.

The City's investments and maturities are as follows:

Investment Type	Total	Maturities	
		Less than One Year	1 - 5 Years
Debt Securities			
Municipal bonds	\$ 103,512	\$ 24,950	\$ 78,562
Federal Home Loan Bank Bonds	373,057	-	373,057
US Treasury Bills	175,188	175,188	-
US Treasury Notes	<u>939,083</u>	<u>757,598</u>	<u>181,485</u>
Total Debt Securities	1,590,840	957,736	633,104
Other Investments			
Certificates of Deposit	<u>1,567,852</u>	<u>400,231</u>	<u>1,167,621</u>
Total	<u>\$ 3,158,692</u>	<u>\$ 1,357,967</u>	<u>\$ 1,800,725</u>

Interest Rate Risk

In accordance with Minnesota Statutes, the City has developed a formal investment policy governing that investments will be made, based on statutory constraints, in safe, low risk instruments.

CITY OF MAHNOMEN
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2022

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Ratings for debt securities below are from S&P or Moody's.

<u>Credit Agency</u>	<u>Credit Rating</u>	<u>Total</u>
S&P	AA+	\$ 1,365,847
S&P	AA	15,000
Moody's	Aa2	9,810
Moody's	Aa3	24,995
S&P	A-1+	175,188
Total		<u>\$ 1,590,840</u>

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by the City's investment in a single issuer, excluding U.S. guaranteed investments, investment pools, and mutual funds. The City's policy is to minimize Concentration of Credit Risk by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. This will be based on applicable opinion units.

At December 31, 2022, the following City investments were subject to concentration of credit risk:

<u>Investment</u>	<u>Fair Value</u>	<u>Concentration Percentage</u>
Non-negotiable CD's	\$ 1,348,686	40%
Negotiable CD's	219,166	10%
Treasury Bills	175,188	10%
Treasury Notes	939,083	30%
Federal Home Loan Agency Bond	373,057	10%
Municipal Bonds	103,512	0%
Total	<u>\$ 3,158,692</u>	<u>100.00%</u>

Investments – Fair Value

As described in Note 1, the City reports investments at fair value following GASB Statement No. 72 "Fair Value Measurement and Application," which sets forth the framework for measuring the fair value of investments based on a hierarchy of valuation inputs. The statement defines fair value as the exit price at the measurement date from the perspective of a market participant that controls the asset or is obligated for the liability. The hierarchy has three levels:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity can access at the measurement date.

Level 2: Inputs other than quoted prices included in Level 1 that are observable for the assets or liabilities, either directly or indirectly. Inputs for Level 2 include:

CITY OF MAHNOMEN
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2022

- Quoted prices for similar assets or liabilities in active markets.
- Quoted prices for identical or similar assets or liabilities in active markets.
- Inputs other than quoted prices that are observable for the asset or liability.
- Inputs derived from, or corroborated by, observable market data by correlation or other means.

Level 3: Unobservable inputs for the asset or liability.

Investments for the City measured by their fair value level are as follows:

Investments Measured by Fair Value Level	Total	Quoted Price (Level 1)	Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Debt Securities				
Municipal bonds	\$ 103,512	\$ -	\$ 103,512	\$ -
Federal Home Loan Bank Agency Bond	373,057	373,057	-	-
US Treasury Bills	175,188	175,188	-	-
US Treasury Notes	939,083	939,083	-	-
Other Investments				
Certificates of Deposit	1,567,852	1,567,852	-	-
Total	\$ 3,158,692	\$ 3,055,180	\$ 103,512	\$ -

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. Minnesota Statutes require that all City deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds. As of December 31, 2022, the City was not exposed to custodial credit risk. The City does not have a formal investment policy on custodial credit risk.

Custodial Credit Risk - Investments

The custodial credit risk for Investments is the risk that, in event of the failure of the counterparty to a transaction, a government will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The City minimizes custodial credit risk by limiting investments to the types of securities permitted by Minnesota Statute, Chapter 118A, and by obtaining broker certification forms and documentation of perfected security interest in pledged, collateral from authorized financial institutions, brokers/dealers, and intermediaries or advisors. Some brokers have excess SIPC coverage which may mitigate all or part of custodial credit risk.

NOTE 3 TAXES AND SPECIAL ASSESSMENTS RECEIVABLE

Property tax levies are set by the City Council in October each year and are certified to the county for collection the following year. In Minnesota, counties act as collection agents for all property taxes.

The county spreads the levies over all taxable property in the City. Such taxes become receivables of the City as of January 1.

Property taxes are payable in equal installments by property owners to the county as follows: Personal Property - February 29 and June 30; and Real Property - May 15 and October 15.

CITY OF MAHNOMEN
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2022

The county remits the collections to the City and other taxing districts three times a year, in January, July and December.

Unpaid taxes at December 31 become liens on the respective property and are classified in the financial statements as taxes receivable. The receivable is fully offset by deferred revenue as it is not available to finance current expenditures.

Special assessments are levied against the benefited properties for the assessable costs of special assessment improvement projects in accordance with Minnesota Statutes. The City usually adopts the assessment rolls when the individual projects are complete or substantially complete. The assessments are collectible over a term of years generally consistent with the term of years of the related bond issue.

Collection of annual installments (including interest) is handled by the county in the same manner as property taxes. Property owners are allowed to prepay total future installments without interest or prepayment penalties.

Special assessments receivable includes the following components:

Unremitted - Amounts collected by Mahnomen County and not remitted to the City.

Delinquent - Amounts billed to property owners but not paid.

Deferred - Assessment installments which will be billed to property owners in future years.

NOTE 4 LOANS RECEIVABLE

The City has entered into an agreement with one local businesses to provide funding for economic development. Loans receivable as of December 31, 2022 for the City are as follows:

	Original Loan	Maturity Date	Interest Rate	Balance as of 12/31
Loan 1	\$ 33,909	2/1/2028	1.00%	\$ 14,717

The annual requirements to amortize the loans receivable at December 31, 2022 are as follows:

Year Ending Dec. 31,	Principal	Interest	Total
2023	\$ 3,744	\$ 206	\$ 3,950
2024	3,781	169	3,950
2025	3,819	131	3,950
2026	3,373	159	3,532
Total	\$ 14,717	\$ 665	\$ 15,382

CITY OF MAHNOMEN
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2022

NOTE 5 CAPITAL ASSETS

The following is a summary of governmental activities capital asset activity for the year ended December 31, 2022:

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Reclassifications</u>	<u>Ending Balance</u>
Capital assets, nondepreciable:					
Land	\$ 195,177	\$ 10,000	\$ -	\$ -	\$ 205,177
Construction in process	<u>9,736,652</u>	<u>930,486</u>	<u>(3,793,371)</u>	<u>(6,361,948)</u>	<u>511,819</u>
Total	<u>9,931,829</u>	<u>940,486</u>	<u>(3,793,371)</u>	<u>(6,361,948)</u>	<u>716,996</u>
Capital assets, depreciable:					
Buildings	911,084	1,974,225	-	-	2,885,309
Machinery and equipment	1,710,178	91,020	(52,900)	-	1,748,298
Infrastructure	<u>4,068,894</u>	<u>1,876,804</u>	<u>-</u>	<u>-</u>	<u>5,945,698</u>
Total	<u>6,690,156</u>	<u>3,942,049</u>	<u>(52,900)</u>	<u>-</u>	<u>10,579,305</u>
Less accumulated depreciation for:					
Buildings	(311,035)	(42,369)	-	-	(353,404)
Machinery and equipment	(1,433,700)	(119,306)	52,900	-	(1,500,106)
Infrastructure	<u>(3,181,776)</u>	<u>(91,878)</u>	<u>-</u>	<u>-</u>	<u>(3,273,654)</u>
Total accumulated depreciation	<u>(4,926,511)</u>	<u>(253,553)</u>	<u>52,900</u>	<u>-</u>	<u>(5,127,164)</u>
Total depreciable capital assets, net	<u>1,763,645</u>	<u>3,688,496</u>	<u>-</u>	<u>-</u>	<u>5,452,141</u>
Total governmental activities capital assets, net	<u>\$ 11,695,474</u>	<u>\$ 4,628,982</u>	<u>\$ (3,793,371)</u>	<u>\$ (6,361,948)</u>	<u>\$ 6,169,137</u>

Governmental activities depreciation expense was charged to government functions as follows:

General Government	\$ 7,295
Public Safety	87,206
Culture and Recreation	449
Public Works	<u>158,603</u>
	<u>\$ 253,553</u>

CITY OF MAHNOMEN
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2022

The following is a summary of business-type activities capital asset activity for the year ended December 31, 2022:

<u>Business-Type Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Reclassifications</u>	<u>Ending Balance</u>
Capital assets, nondepreciable:					
Land	\$ 210,574	\$ -	\$ -	\$ -	\$ 210,574
Construction in process	284,773	95,987	(243,130)	-	137,630
Total	<u>495,347</u>	<u>95,987</u>	<u>(243,130)</u>	<u>-</u>	<u>348,204</u>
Capital assets, depreciable:					
Buildings and systems	7,969,724	277,702	-	6,361,948	14,609,374
Machinery and equipment	309,945	19,626	-	-	329,571
Total	<u>8,279,669</u>	<u>297,328</u>	<u>-</u>	<u>6,361,948</u>	<u>14,938,945</u>
Less accumulated depreciation for:					
Buildings and systems	(4,538,265)	(266,056)	-	-	(4,804,321)
Machinery and equipment	(216,025)	(12,376)	-	-	(228,401)
Total accumulated depreciation	<u>(4,754,290)</u>	<u>(278,432)</u>	<u>-</u>	<u>-</u>	<u>(5,032,722)</u>
Total depreciable capital assets, net	<u>3,525,379</u>	<u>18,896</u>	<u>-</u>	<u>6,361,948</u>	<u>9,906,223</u>
Total business-type activities capital assets, net	<u>\$ 4,020,726</u>	<u>\$ 114,883</u>	<u>\$ (243,130)</u>	<u>\$ 6,361,948</u>	<u>\$ 10,254,427</u>

Business-type activities depreciation expense was charged to government functions as follows:

Water	\$ 130,790
Sewer	116,968
Liquor Stores	24,661
Storm Water	6,013
	<u>\$ 278,432</u>

The Water Sewer Improvement project was capitalized in 2022. The project costs were tracked over the last few years in the Governmental Activities, Capital Projects Fund. \$6,361,948 Water, Sewer and Storm Sewer portions of the project was reclassified from the Governmental Activities to the Business-Type Activities in 2022.

NOTE 6 INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Due To/From by Fund

<u>Receivable</u>	<u>Payable</u>	<u>Amount</u>
General	Liquor Stores	\$ 111,413
General	Capital Projects	20,686
General	TIF District	19,547
		<u>\$ 151,646</u>

CITY OF MAHNOMEN
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2022

The due to/from's resulted from the general fund expending funds for another fund in which it is expecting payment. The amount due to the general fund from the liquor store fund resulted from the City paying off the balance of a loan for the purchase of a building and land for the Lucky 7 liquor store. The liquor fund will pay back the general fund using the same life of the loan without an interest element. The amount due to the general fund from the TIF fund and capital projects fund is due to cash shortages in the TIF fund and capital project fund.

Interfund Transfers

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
General	Capital Projects	\$ 1,003,576
Capital Projects	Debt Service	6,261
TIF Districts	General	1,116
		<u>\$ 1,010,953</u>

The purpose of the transfers was to move capital project funds to the general fund to cover city hall and library renovation costs paid out of the general fund, transfer funds from the debt service fund to the capital projects fund to close out the debt service investment account and transfer funds from the general fund to the TIF district fund to close out a decertified TIF district with a deficit fund balance since that TIF is no longer receiving any more revenues.

NOTE 7 LONG-TERM DEBT

During the year ended December 31, 2022, the following changes occurred in liabilities reported in the long-term debt:

	Balance 12/31/21	Additions	Reductions	Reclassifications	Balance 12/31/22	Due Within One Year
Governmental Activities:						
Notes Payable	\$ 74,623	\$ -	\$ (17,731)	\$ -	\$ 56,892	\$ 17,724
2019A GO Temporary Water & Sewer Bonds	9,705,000	-	-	(9,705,000)	-	-
2021B GO Temporary Capital Improvement Plan Bonds	1,550,000	-	-	-	1,550,000	-
2022A GO Water and Sewer Revenue Bond - Street Portion	-	-	-	1,538,052	1,538,052	29,717
2022B GO Temporary Water & Sewer Bonds	-	-	-	1,805,000	1,805,000	1,805,000
Compensated Absences	9,985	10,657	(10,420)	-	10,222	10,222
Governmental Activities Total	<u>\$11,339,608</u>	<u>\$ 10,657</u>	<u>\$ (28,151)</u>	<u>\$ (6,361,948)</u>	<u>\$ 4,960,166</u>	<u>\$ 1,862,663</u>
Business-Type Activities:						
MPFA Clean Water Revolving Loan	\$ 253,000	\$ -	\$ (40,000)	\$ -	\$ 213,000	\$ 41,000
MPFA Drinking Water Revolving Loan	137,000	-	(22,000)	-	115,000	22,000
2020A Sewer & Water Revenue Refunding Bonds	1,030,000	-	(75,000)	-	955,000	85,000
Bond Premium-2020A Sewer & Water Refunding Bonds	77,651	-	(7,701)	-	69,950	-
2021A Water Revenue Bonds	620,000	-	-	-	620,000	60,000
2022A Water and Sewer Revenue Bond	-	-	-	4,461,948	4,461,948	86,210
Compensated Absences	34,457	17,718	(24,839)	-	27,336	27,336
Business-Type Activities Total	<u>\$ 2,152,108</u>	<u>\$ 17,718</u>	<u>\$ (169,540)</u>	<u>\$ 4,461,948</u>	<u>\$ 6,462,234</u>	<u>\$ 321,546</u>

The Governmental activities notes payable and compensated absences are being liquidated by the general fund.

\$9,705,000 2019A GO Temporary Bonds were paid off in 2022 with proceeds from 2022A and 2022B GO Bonds and \$1,900,000 grant funds.

CITY OF MAHNOMEN
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2022

General obligation bonds outstanding at December 31, 2022 are as follows:

Date of Issue	Interest Rate	Maturity Date	Original Amount	Current Year Retired	Balance 12/31/22	Amounts Due	
						Principal	Interest
Governmental-Type Activities:							
2019	1.38%	10/1/2022	\$ 9,705,000	\$ 9,705,000	\$ -	\$ -	\$ -
2021	0.35%	2/1/2024	1,550,000	-	1,550,000	-	5,425
2022	1.25%	3/24/2062	1,538,052	-	1,538,052	29,717	19,385
2022	2.65%	10/1/2023	1,805,000	-	1,805,000	1,805,000	48,364
Business-Type Activities:							
2008	1.78%	8/20/2027	718,929	40,000	213,000	41,000	3,804
2008	1.52%	8/20/2027	390,054	22,000	115,000	22,000	1,746
2020	2-3%	2/1/2032	1,110,000	75,000	955,000	85,000	24,375
2021	1.50%	2/1/2032	620,000	-	620,000	60,000	8,850
2022	1.25%	3/24/2062	4,461,948	-	4,461,948	86,210	56,237

The annual requirements to amortize all outstanding debt as of December 31, 2022, including interest payments, are as follows:

Year Ending December 31,	Governmental		Business-Type		Total
	Principal	Interest	Principal	Interest	
2023	\$ 1,834,717	\$ 73,174	\$ 294,210	\$ 151,077	\$ 2,353,178
2024	1,580,248	21,567	302,749	96,582	2,001,146
2025	30,626	18,476	304,846	90,785	444,733
2026	31,008	18,093	310,957	84,883	444,941
2027	31,396	17,706	314,082	78,891	442,075
2028-2032	162,967	82,543	1,292,772	310,254	1,848,536
2033-2037	173,410	72,099	503,069	209,163	957,741
2038-2042	184,522	60,987	535,306	176,925	957,740
2043-2047	196,347	49,162	569,610	142,621	957,740
2048-2052	208,929	36,580	606,112	106,120	957,741
2053-2057	222,318	23,191	644,952	67,279	957,740
2058-2062	236,564	8,945	686,283	25,949	957,741
	<u>\$ 4,893,052</u>	<u>\$ 482,523</u>	<u>\$ 6,364,948</u>	<u>\$ 1,540,529</u>	<u>\$ 13,281,052</u>

During 2021, the City issued \$1,550,000 in General Obligation Temporary Capital Improvement Plan Bonds Series 2021B to finance the fire hall construction project. The construction project was completed in 2022. The City is anticipating future general fund tax revenues and using the City's own reserves to cover future debt service payments.

During 2021, the City also issued \$620,000 in General Obligation Water Revenue Bonds Series 2021A to finance the construction of various improvements to the municipal water system in the City. The construction project is expected to begin and be completed in 2023. The City will receive USDA loan proceeds to refinance bonds upon project completion.

During 2020, the City issued \$1,110,000 in General Obligation Sewer & Water Revenue Refunding Bonds, Series 2020A. The City has pledged \$1,647,750 of future water revenue for the water and sewer upgrades for the 2020A Sewer & Water Revenue Bond. Revenues are pledged through 2032. The Water and Sewer funds had net revenues, excluding depreciation, interest, and contributed capital, of \$413,407 that exceeded the annual payments from the pledged revenue for debt of \$101,775.

CITY OF MAHNOMEN
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2022

During 2019, the City issued temporary Water & Sewer Revenue Bonds in the amount of \$9,705,000 to finance the water sewer improvement project. The construction project was completed in 2022. The City received USDA loan proceeds and other funding to refinance these bonds in 2022 – see below.

During 2022, the City issued a \$6,000,000 General Obligation Water and Sewer Revenue Bond Series 2022A that was financed by the USDA, to redeem and prepay \$6,000,000 of the \$9,705,000 General Obligation Temporary Water Revenue Bonds, Series 2019. The City has pledged future revenues of the water and sewer system and has pledged the full faith, credit and taxing powers of the City for full payment of principal and interest payments as they come due.

During 2022, the City issued \$1,805,000 Temporary Water & Sewer Bonds Series 2022B to prepay a portion of the \$9,705,000 General Obligation Temporary Water Revenue Bonds, Series 2019. This bond will be refinanced in 2023 with additional USDA loan proceeds and remaining project funds.

During 2017, the City entered into a zero percent 10-year loan for \$100,000 to purchase a fire truck. The loan will be paid in monthly increments maturing on November 1, 2027. The City also entered into a loan with the Minnesota Department of Economic Development for the demolition of hazardous property. This note was issued for \$38,656, carries an interest rate of 2% and will mature August 15, 2023.

<u>Year Ending</u> <u>December 31,</u>	<u>Governmental</u> <u>Principal</u>	<u>Interest</u>
2023	\$ 17,724	\$ 154
2024	10,000	-
2025	10,000	-
2026	10,000	-
2027	9,168	-
	<u>\$ 56,892</u>	<u>\$ 154</u>

NOTE 8 LEASES

The City general fund leases building space to another entity for a specific purpose, the terms of this lease is as follows:

<u>Lease Type</u>	<u>Commencing</u>	<u>Terminating</u>	<u>Payment Frequency</u>	<u>Payment amount</u>
Building	11/1/2006	10/31/2031	Monthly	\$ 3,470

CITY OF MAHNOMEN
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2022

	Year Ended 12/31/2022
Lease Revenue	
Building	\$ 41,193
Total Lease Revenue	41,193
Interest Revenue	11,637
Total	<u>\$ 52,830</u>

Maturity Analysis	Principal	Interest	Total Receipts
2023	\$ 32,324	\$ 10,778	\$ 43,102
2024	34,618	9,777	44,395
2025	37,022	8,706	45,728
2026	39,539	7,561	47,100
2027	42,174	6,339	48,513
2028-2032	188,246	11,474	199,720
Total	<u>\$ 373,923</u>	<u>\$ 54,635</u>	<u>\$ 428,558</u>

NOTE 9 FUND BALANCE

Minimum Fund Balance Policy

The City of Mahanomen's policy is to keep sufficient fund balance to cover two months of expenses which is approximately \$312,918 based on 2022 general fund expenses.

NOTE 10 CONTINGENT LIABILITIES

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal and state governments. 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 government expects such amounts, if any, to be immaterial.

NOTE 11 COMMITMENTS

In 2022, the City entered into a multi-year construction contract for the City Hall and Library construction project totaling approximately \$293,000. Construction began in 2022 and is expected to be completed in 2023. As of December 31, 2022, the City had \$657,378 remaining on the contract.

NOTE 12 RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The City of Mahanomen carries commercial insurance for all other risks of loss, including employee's health and accident insurance.

Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

CITY OF MAHNOMEN
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2022

NOTE 13 DEFINED BENEFIT PENSION PLANS - STATEWIDE

Substantially, all employees of the City are required by state law to belong to pension plans administered by the Public Employees Retirement Association (PERA) which is administered on a statewide basis.

Disclosures relating to these plans follow:

Public Employees Retirement Association

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.

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

B. Benefits Provided

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

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

Benefit increases are provided to benefit recipients each January. The postretirement increase 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 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 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 MAHNOMEN
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
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C. Contributions

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

Coordinated Plan members were required to contribute 6.50% of their annual covered salary in fiscal year 2022 and the City was required to contribute 7.50% for Coordinated Plan members. The City's contributions to the General Employees Fund for the year ended December 31, 2022, were \$39,233. The City's contributions were equal to the required contributions for each year as set by state statute.

D. Pension Costs

At December 31, 2022, the City reported a liability of \$522,722 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 \$15,339. The net pension liability was measured as of June 30, 2022, 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, 2021, through June 30, 2022, relative to the total employer contributions received from all of PERA's participating employers. The City's proportion share was 0.0066% at the end of the measurement period and 0.0066% for the beginning of the period.

City's proportionate share of the net pension liability	\$522,722
State of Minnesota's proportionate share of the net pension liability associated with the City	<u>15,339</u>
Total	<u>\$538,061</u>

For the year ended December 31, 2022, the City recognized pension expense of \$70,388 for its proportionate share of the General Employees Plan's pension expense. In addition, the City recognized an additional \$2,292 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, 2022, the City reported its proportionate share of General Employees Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 4,365	\$ 5,576
Changes in actuarial assumptions	118,300	2,095
Difference between projected and actual investment earnings	8,760	-
Changes in proportion	4,634	-
Contributions paid to PERA subsequent to the measurement date	<u>18,639</u>	<u>-</u>
Total	<u>\$ 154,698</u>	<u>\$ 7,671</u>

CITY OF MAHNOMEN
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
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The \$18,639 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2023. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending December 31:	Pension Expense Amount
2023	\$ 48,675
2024	49,102
2025	(16,658)
2026	47,269

E. Long-Term Expected Return on Investment

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

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

F. Actuarial Assumptions

The total pension liability in the June 30, 2022, actuarial valuation was determined using an individual entry-age normal actuarial cost method. The long-term rate of return on pension plan investments used in the determination of the total liability is 6.50 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 6.50 percent was deemed to be within that range of reasonableness for financial reporting purposes.

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

Salary growth assumptions in the General Employees Plan range in annual increments from 10.25 percent after one year of service to 3.0 percent after 29 years of service and 6.0 percent per year thereafter.

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

Actuarial assumptions for the General Employees Plan are reviewed every four years. The most recent four-year experience study for the General Employees Plan was completed in 2019. The assumption changes were adopted by the Board and became effective with the July 1, 2020 actuarial valuation.

CITY OF MAHNOMEN
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
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The following changes in actuarial assumptions and plan provisions occurred in 2022.

General Employees Fund

Changes in Actuarial Assumptions:

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

Changes in Plan Provisions:

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

G. Discount Rate

The discount rate used to measure the total pension liability in 2022 was 6.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Fund was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

H. Pension Liability Sensitivity

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

	1% Decrease in Discount Rate (5.5%)	Discount Rate (6.5%)	1% Increase in Discount Rate (7.5%)
City's proportionate share of the net pension liability:	\$ 825,667	\$ 522,722	\$ 274,261

I. Pension Plan Fiduciary Net Position

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

NOTE 14 VOLUNTEER FIRE RELIEF ASSOCIATION

Plan Description

The City remits a state aid payment to the Mahnomen Fire Relief Association (Association), a single-employer public retirement system that acts as an administrator for volunteer firefighters. All volunteer firefighters of the City are members of the Mahnomen Fire Department Relief Association. Retiring individuals receive a lump sum distribution in an amount equal to \$1,350 per year of service. The members are 60% vested after 10 years and vest another 4% each year for 10 years to be 100% vested. If members are not age 50 when they retire, they receive a deferred benefit until age 50. These benefit provisions and all other requirements are consistent with enabling state statutes.

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NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2022

Funding Policy

The City passes through state aids allocated to the plan in accordance with state statutes. The state aid was \$0 for 2022.

Ten-Year Historical Trend Information

Ten-year historical trend information is available in the Association's financial reports.

Related Party Investments

As of December 31, 2022, and for the fiscal year then ended, the Association held no securities issued by the City or other related parties.

The City has elected not to implement Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions*, as it relates to the Mahnomen Firefighters' Relief Association.

NOTE 15 JOINT VENTURE

The Mahnomen County-City Hospital is run under a joint powers agreement between the County of Mahnomen and the City of Mahnomen. The ownership of the hospital is 78 percent County owned and 22 percent City owned. The City has responsibility for 22 percent of any capital costs or deficits. During 2022, costs incurred under the City's agreement was \$36,666.

NOTE 16 CONCENTRATION OF SALES AND REVENUES

Shooting Star Casino is the largest customer of the Water and Sewer Funds. The Casino's purchases account for approximately 28% of the Water Fund's operating revenue and approximately 29% of the Sewer Fund's operating revenue.

NOTE 17 NEW PRONOUNCEMENTS

GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, improves financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs) and also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). The statement provides definitions of PPPs and APAs and provides uniform guidance on accounting and financial reporting for transactions that meet those definitions. A PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. An APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

GASB Statement No. 96, *Subscription-Based Information Arrangements* provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs). A SBITA is defined as a contract that conveys control of the right to use another party's (a SBITA vendor's) information technology (IT) software, alone or in

CITY OF MAHNOMEN
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2022

combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction. Under this Statement, a government generally should recognize a right-to use subscription asset—an intangible asset—and a corresponding subscription liability. The requirements of this Statement will improve financial reporting by establishing a definition for SBITAs and providing uniform guidance for accounting and financial reporting for transactions that meet that definition. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

GASB Statement No. 99, *Omnibus 2022*, provides guidance on the following accounting matters:

- Classification and reporting of derivative instruments within the scope of Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, that do not meet the definition of either an investment derivative instrument or a hedging derivative instrument.
- Clarification of provisions in Statement No. 87, *Leases*, as amended, related to the determination of the lease term, classification of a lease as a short-term lease, recognition and measurement of a lease liability and a lease asset, and identification of lease incentives.
- Clarification of provisions in Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, related to (a) the determination of the public-private and public-public partnership (PPP) term and (b) recognition and measurement of installment payments and the transfer of the underlying PPP asset.
- Clarification of provisions in Statement No. 96, *Subscription-Based Information Technology Arrangements*, related to the subscription-based information technology arrangement (SBITA) term, classification of a SBITA as a short-term SBITA, and recognition and measurement of a subscription liability.
- Extension of the period during which the London Interbank Offered Rate (LIBOR) is considered an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap that hedges the interest rate risk of taxable debt.
- Accounting for the distribution of benefits as part of the Supplemental Nutrition Assistance Program (SNAP).
- Disclosures related to nonmonetary transactions.
- Pledges of future revenues when resources are not received by the pledging government.
- Clarification of provisions in Statement No. 34, *Basic Financial Statements— and Management's Discussion and Analysis—for State and Local Governments*, as amended, related to the focus of the government-wide financial statement.
- Terminology updates related to certain provisions of Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.
- Terminology used in Statement 53 to refer to resource flows statements.

CITY OF MAHNOMEN
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2022

The requirements of this statement are effective as follows:

- The requirements related to extension of the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement 34, as amended, and terminology updates related to Statement 53 and Statement 63 are effective upon issuance.
- The requirements related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.
- The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter.

GASB Statement No. 100, *Accounting Changes and Error Corrections – An Amendment of GASB Statement No. 62*, provides guidance on accounting and financial reporting requirements for accounting changes and error corrections. Statement requires that (a) changes in accounting principles and error corrections be reported retroactively by restating prior periods, (b) changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period, and (c) changes in accounting estimates be reported prospectively by recognizing the change in the current period. The requirements of this Statement for changes in accounting principles apply to the implementation of a new pronouncement in absence of specific transition provisions in the new pronouncement. This Statement also requires that the aggregate amount of adjustments to and restatements of beginning net position, fund balance, or fund net position, as applicable, be displayed by reporting unit in the financial statements.

This Statement requires disclosure in notes to financial statements of descriptive information about accounting changes and error corrections, such as their nature. In addition, information about the quantitative effects on beginning balances of each accounting change and error correction should be disclosed by reporting unit in a tabular format to reconcile beginning balances as previously reported to beginning balances as restated. The requirements of this Statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

GASB Statement No. 101, *Compensated Absences*, provides guidance on the recognition and measurement guidance for compensated absences. This Statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. This Statement also requires that a liability for specific types of compensated absences not be recognized until the leave is used. This Statement also establishes guidance for measuring a liability for leave that has not been used, generally using an employee's pay rate as of the date of the financial statements. A liability for leave that has been used but not yet paid or settled should be measured at the amount of the cash payment or noncash settlement to be made. Certain salary-related payments that are directly and incrementally associated with payments for leave also should be included in the measurement of the liabilities. This Statement amends the existing requirement to disclose the gross increases and decreases in a liability for compensated absences to allow governments to disclose only the net change in the liability (as long as they identify it as a net change). In addition, governments are no longer required to disclose which governmental funds

CITY OF MAHNOMEN
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2022

typically have been used to liquidate the liability for compensated absences. The requirements of this Statement are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

Management has not yet determined what effect these statements will have on the City's financial statements.

NOTE 18 FUND BALANCE DEFICIT

There were deficit fund balances of \$129,536 in the capital project fund and \$19,547 in the tax increment district fund as of December 31, 2022. This will be funded through future project funding and through tax increment collections.

NOTE 19 SUBSEQUENT EVENTS

The City issued a \$785,012 General Obligation Water and Sewer Revenue Bond Series 2023A on May 25, 2023, to refund the 2021A Water Revenue Bond and 2022B General Obligation Temporary Water and Sewer Bonds together with existing project funds.

Subsequent events have been evaluated through June 30, 2023, which is the date these financial statements were available to be issued.

CITY OF MAHNOMEN
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES – BUDGET TO ACTUAL
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2022

	<u>Budgeted Amounts</u>		<u>Variance with Final Budget -</u>
REVENUES	<u>Original & Final</u>	<u>Actual Amounts</u>	<u>Positive (Negative)</u>
Taxes:			
Property	\$ 249,789	\$ 252,438	\$ 2,649
Intergovernmental Revenue:			
Federal Grants	-	52,938	52,938
State Grants:			
Local Government	667,553	667,553	-
Fire Aid	16,500	-	(16,500)
Casino Aid	160,000	160,000	-
Court Fees	15,000	18,399	3,399
Miscellaneous Intergovernmental	228,037	28,230	(199,807)
County Grants	10,500	10,472	(28)
Total Intergovernmental	<u>1,097,590</u>	<u>937,592</u>	<u>(159,998)</u>
Charges for Services:			
Fire Department	45,391	51,232	5,841
Refuse	-	5,501	5,501
Licenses	3,000	4,780	1,780
	<u>48,391</u>	<u>61,513</u>	<u>13,122</u>
Other Revenues:			
Interest	12,500	11,637	(863)
Contributions	-	1,267	1,267
Special Assessments	-	6,074	6,074
Rents	45,964	45,518	(446)
Nongovernmental Grants	-	67,158	67,158
Other	-	32,637	32,637
Total Other Revenue	<u>58,464</u>	<u>164,291</u>	<u>105,827</u>
TOTAL REVENUES	<u>1,454,234</u>	<u>1,415,834</u>	<u>(38,400)</u>

See Notes to the Required Supplementary Information

CITY OF MAHNOMEN
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES – BUDGET TO ACTUAL - CONTINUED
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2022

	<u>Budgeted Amounts</u>		<u>Variance with Final Budget -</u>
	<u>Original & Final</u>	<u>Actual Amounts</u>	<u>Positive (Negative)</u>
EXPENDITURES			
General Government			
Council Salaries	\$ 14,645	\$ 13,995	\$ 650
Office Salaries	112,311	110,711	1,600
Travel Expense	500	1,058	(558)
Street Lighting	57,330	46,517	10,813
City Attorney	9,423	8,941	482
City Office:			
PERA	8,698	7,838	860
FICA	8,354	7,880	474
Taxes and Assessments	3,500	4,588	(1,088)
Utilities	28,228	24,709	3,519
Repairs and Maintenance	3,950	10,610	(6,660)
General Supplies	4,000	4,669	(669)
Insurance	101,749	67,251	34,498
Dues and Subscriptions	7,000	12,146	(5,146)
Professional Fees	130,511	100,783	29,728
Training and Meetings	2,500	2,008	492
Other Expenses	7,750	35,059	(27,309)
Debt Principal	17,731	17,731	-
Debt Interest	309	309	-
Capital Outlay	433,100	81,184	351,916
Total City Office	<u>757,380</u>	<u>376,765</u>	<u>380,615</u>
Total General Government	<u>951,589</u>	<u>557,987</u>	<u>393,602</u>

See Notes to the Required Supplementary Information

CITY OF MAHNOMEN
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES – BUDGET TO ACTUAL - CONTINUED
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2022

	<u>Budgeted Amounts</u>		<u>Variance with Final Budget -</u>
	<u>Original & Final</u>	<u>Actual Amounts</u>	<u>Positive (Negative)</u>
Public Safety:			
Police Protection:			
Contract with County	\$ 257,453	\$ 252,357	\$ 5,096
Fire Protection:			
Salaries	51,490	20,310	31,180
Utilities	12,500	6,305	6,195
Telephone	3,073	3,156	(83)
Supplies	5,000	3,870	1,130
Other Services and Charges	141,321	153,641	(12,320)
Repairs and Maintenance	16,000	18,756	(2,756)
Training and Meetings	5,000	252	4,748
Gas and Oil	4,500	1,886	2,614
Capital Outlay	15,500	13,431	2,069
Total Fire Protection	<u>254,384</u>	<u>221,607</u>	<u>32,777</u>
Total Public Safety:	<u>511,837</u>	<u>473,964</u>	<u>37,873</u>
Public Works			
Streets:			
Salaries	60,622	64,405	(3,783)
Street Supplies and Maintenance	6,000	6,333	(333)
Other Charges	4,875	7,004	(2,129)
Utilities	11,385	9,749	1,636
Repairs and Maintenance	65,500	56,470	9,030
Gas, Oil and Lubricants	16,000	25,061	(9,061)
Capital Outlay	232,000	162,215	69,785
Total Public Works	<u>396,382</u>	<u>331,237</u>	<u>65,145</u>

See Notes to the Required Supplementary Information

CITY OF MAHNOMEN
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES – BUDGET TO ACTUAL - CONTINUED
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2022

	<u>Budgeted Amounts</u>		<u>Variance with Final Budget -</u>
	<u>Original & Final</u>	<u>Actual Amounts</u>	<u>Positive (Negative)</u>
Culture and Recreation			
Library	\$ 65,599	\$ 60,104	\$ 5,495
Capital Outlay	40,000	380,515	(340,515)
Total Culture and Recreation	<u>105,599</u>	<u>440,619</u>	<u>(335,020)</u>
Economic Development			
Economic Development	54,000	49,770	4,230
Hospital Financial Support	-	23,930	(23,930)
Total Economic Development	<u>54,000</u>	<u>73,700</u>	<u>(19,700)</u>
Total Expenditures	<u>2,019,407</u>	<u>1,877,507</u>	<u>141,900</u>
Excess of Revenues over (under) Expenditures	<u>(565,173)</u>	<u>(461,673)</u>	<u>103,500</u>
Other Financing Sources (Uses)			
Transfer In	-	1,003,576	-
Transfer Out	-	(1,116)	(1,116)
Total Other Financing Sources	<u>-</u>	<u>1,002,460</u>	<u>(1,116)</u>
Net Change in Fund Balance	(565,173)	540,787	102,384
Fund Balances - Beginning	<u>3,363,156</u>	<u>3,363,156</u>	<u>-</u>
Fund Balances - Ending	<u>\$ 2,797,983</u>	<u>\$ 3,903,943</u>	<u>\$ 102,384</u>

See Notes to the Required Supplementary Information

CITY OF MAHNOMEN
SCHEDULE OF CITY'S CONTRIBUTIONS TO PERA RETIREMENT FUND
LAST 10 YEARS

Year Ended	Statutorily Required Contributions	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	City's Covered Payroll	Contributions as a Percentage of Covered Payroll
2015	\$ 25,823	\$ 25,823	\$ -	\$ 344,308	7.50%
2016	28,655	28,655	-	382,064	7.50%
2017	32,028	32,028	-	427,307	7.50%
2018	33,247	33,247	-	443,297	7.50%
2019	34,323	34,323	-	457,634	7.50%
2020	36,712	36,712	-	489,493	7.50%
2021	36,158	36,158	-	479,106	7.55%
2022	39,233	39,233	-	525,413	7.47%

The amounts presented for each fiscal year were determined as of the City's year end which is December 31.

The City implemented GASB Statement No. 68 for its year ended December 31, 2015. Information for the prior years is not available.

See Notes to the Required Supplementary Information

CITY OF MAHNOMEN
SCHEDULE OF CITY'S AND NON-EMPLOYER PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
LAST 10 YEARS

Year Ended	City's Proportion of the Net Pension Liability	City's Proportionate Share of the Net Pension Liability	State's Proportionate Share of the Net Pension Liability Associated with the City	City's Proportionate Share of the Net Pension Liability and the State's Proportionate Share of the Net Pension Liability Associated with the City	City's Covered Payroll	City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	0.0059%	\$ 305,769	\$ -	\$ 305,769	\$ 345,189	88.6%	78.8%
2016	0.0058%	470,931	6,176	477,107	359,401	132.8%	68.9%
2017	0.0063%	402,187	5,046	407,233	405,363	100.5%	75.9%
2018	0.0065%	360,592	11,805	372,397	435,303	85.5%	79.5%
2019	0.0064%	353,842	11,000	364,842	455,873	80.0%	80.2%
2020	0.0065%	389,705	12,016	401,721	460,900	87.2%	79.1%
2021	0.0066%	281,850	8,605	290,455	497,840	58.3%	87.0%
2022	0.0066%	522,722	15,339	538,061	500,789	107.4%	76.7%

The amounts presented for each fiscal year were determined as of the measurement date of the City's net pension liability which is June 30, of the previous year for PERA.

The City implemented GASB Statement No. 68 for its year ended December 31, 2015. Information for the prior years is not available.

See Notes to the Required Supplementary Information

CITY OF MAHNOMEN
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2022

NOTE 1 BUDGETARY COMPARISON

Budgets are prepared for City funds on the same basis and using the same accounting practices as are used to account and prepare financial reports for the funds. Budgets presented in this report for comparison to actual amounts are presented in accordance with accounting principles generally accepted in the United States of America. All appropriations lapse at year-end. Encumbrances represent commitments related to unperformed contracts for goods and services. Encumbrance accounting is not utilized in the governmental funds of the City.

The budget is adopted through the passage of a resolution. Administration can authorize the transfer of budgeted amounts within any fund. Any revisions that alter the total expenditures of any fund must be approved by the City Council. The annual appropriated budget is not legally binding on the City unless the City has a deficit fund balance, which exceeds 2.5% of expenditures.

NOTE 2 DEFINED BENEFIT PLAN

General Employees Fund

2022 Changes

Changes in Plan Provisions:

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

Changes in Actuarial Assumptions:

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

2021 Changes

Changes in Actuarial Assumptions:

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

Changes in Plan Provisions:

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

2020 Changes:

Changes in Actuarial Assumptions:

- The price inflation assumption was decreased from 2.50% to 2.25%.
- The payroll growth assumption was decreased from 3.25% to 3.00%.
- Assumed salary increase rates were changed as recommended in the June 30, 2019 experience study. The net effect is assumed rates that average 0.25% less than previous rates.
- Assumed rates of retirement were changed as recommended in the June 30, 2019 experience study. The changes result in more unreduced (normal) retirements and slightly fewer Rule of 90 and early retirements.
- Assumed rates of termination were changed as recommended in the June 30, 2019 experience study. The new rates are based on service and are generally lower than the previous rates for years 2-5 and slightly higher thereafter.

CITY OF MAHNOMEN
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2022

- 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 older.
- 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. 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.

Changes in Plan Provisions:

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

2019 Changes:

Changes in Actuarial Assumptions:

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

Changes in Plan Provisions:

- The employer supplemental contribution was changed prospectively, decreasing from \$31 million to \$21 million per year. The State's special funding contribution was changed prospectively, requiring \$16 million due per year through 2031.

2018 Changes:

Changes in Actuarial Assumptions:

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

2017 Changes:

Changes in Plan Provisions:

- The State's special funding contribution increased from \$6 million to \$16 million.

Changes in Actuarial Assumptions:

- 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.

CITY OF MAHNOMEN
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2022

2016 Changes

Changes in Actuarial Assumptions:

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2035 and 2.5% per year thereafter to 1.0% per year for all future years.
- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate was changed from 7.9% to 7.5%.

2015 Changes

Changes in Plan Provisions:

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

Changes in Actuarial Assumptions:

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

CITY OF MAHNOMEN
COMBINING STATEMENT OF NET POSITION - NONMAJOR PROPRIETARY FUNDS
DECEMBER 31, 2022

	Non Major		
	Revolving Loan	Storm Water	Total
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 181,072	\$ 3,909	\$ 184,981
Total Current Assets	<u>181,072</u>	<u>3,909</u>	<u>184,981</u>
Non-Current Assets:			
Capital Assets:			
Utility Systems and Buildings	-	406,158	406,158
Less Accumulated Depreciation	<u>-</u>	<u>(48,355)</u>	<u>(48,355)</u>
Total Capital Assets (Net of Accumulated Depreciation)	<u>-</u>	<u>357,803</u>	<u>357,803</u>
Total Assets	<u>181,072</u>	<u>361,712</u>	<u>542,784</u>
LIABILITIES			
Current Liabilities			
Accrued Interest Payable		2,931	2,931
Revenue Bonds Payable - Current Portion	<u>-</u>	<u>5,816</u>	<u>5,816</u>
	<u>-</u>	<u>8,747</u>	<u>8,747</u>
Non-Current Liabilities			
Revenue Bonds Payable (Net of Current)	<u>-</u>	<u>295,216</u>	<u>295,216</u>
Total Non-Current Liabilities	<u>-</u>	<u>295,216</u>	<u>295,216</u>
Total Liabilities	<u>-</u>	<u>303,963</u>	<u>303,963</u>
NET POSITION			
Net Investment in Capital Assets	-	56,771	56,771
Unrestricted	<u>181,072</u>	<u>978</u>	<u>182,050</u>
Total Net Position	<u>\$ 181,072</u>	<u>\$ 57,749</u>	<u>\$ 238,821</u>

CITY OF MAHNOMEN
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET
POSITION - NONMAJOR PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2022

	Non-Major		
	Revolving Loan	Storm Water	Total
Operating Revenues:			
Charges for Services	\$ -	\$ 1,967	\$ 1,967
Total Operating Revenues	-	1,967	1,967
Operating Expenses:			
Depreciation	-	6,013	6,013
Total Operating Expenses	-	6,013	6,013
Operating Income (Loss)	-	(4,046)	(4,046)
Non-Operating Revenues (Expenses):			
Interest Expense		(2,931)	(2,931)
Interest Income	348	-	348
Total Non-Operating Revenue (Expenses)	348	(2,931)	(2,583)
Changes in Net Position	348	(6,977)	(6,629)
Total Net Position - Beginning	180,724	64,726	245,450
Total Net Position - Ending	\$ 181,072	\$ 57,749	\$ 238,821

CITY OF MAHNOMEN
COMBINING STATEMENT OF CASH FLOWS- NONMAJOR PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2022

	Non Major		
	Revolving Loan	Storm Water	Totals
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from Customers and Users	\$ -	\$ 1,967	\$ 1,967
Net Cash Provided (Used) by Operating Activities	-	1,967	1,967
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Economic Development Loan Repayments	12,846	-	12,846
Net Cash Provided (Used) by Capital and Related Financing Activities	12,846	-	12,846
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest Income	348	-	348
Net Cash Provided (Used) by Investing Activities	348	-	348
Net Increase (Decrease) in Cash and Investments	13,194	1,967	15,161
Cash and Investments, January 1	167,878	1,942	169,820
Cash and Investments, December 31	\$ 181,072	\$ 3,909	\$ 184,981
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:			
Operating Income (Loss)	\$ -	\$ (4,046)	\$ (4,046)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:			
Depreciation Expense	-	6,013	6,013
Net Cash Provided (Used) by Operating Activities	\$ -	\$ 1,967	\$ 1,967
Noncash Capital Activities			
Acquisition of Capital Assets through Debt	\$ -	\$ 301,032	\$ 301,032

CITY OF MAHNOMEN
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND NET POSITION – LIQUOR STORES
FOR THE YEAR ENDED DECEMBER 31, 2022

	Municipal Liquor	Lucky Seven	Total
Operating Revenues	\$ 885,458	\$ 583,135	\$ 1,468,593
Less: Cost of Sales	<u>534,228</u>	<u>396,911</u>	<u>931,139</u>
Gross Profit on Sales	<u>351,230</u>	<u>186,224</u>	<u>537,454</u>
Operating Expenses:			
Salaries & Benefits	191,855	114,917	306,772
Insurance	6,417	5,031	11,448
Utilities	16,285	11,603	27,888
Maintenance and Repair	9,269	3,551	12,820
Supplies	16,576	3,882	20,458
Depreciation	11,017	13,644	24,661
Freight	1,319	3,253	4,572
Office Expense	189	-	189
Professional Fees	10,340	957	11,297
Other	<u>49,722</u>	<u>59,654</u>	<u>109,376</u>
Total Operating Expenses	<u>312,989</u>	<u>216,492</u>	<u>529,481</u>
Operating Income (Loss)	<u>38,241</u>	<u>(30,268)</u>	<u>7,973</u>
Non-Operating Revenues (Expenses):			
Intergovernmental	20,000	-	20,000
Interest Income	1,535	2,722	4,257
Miscellaneous Income	<u>14,778</u>	<u>1,718</u>	<u>16,496</u>
Total Non-Operating Revenues (Expenses)	<u>36,313</u>	<u>4,440</u>	<u>40,753</u>
Changes in Net Position	74,554	(25,828)	48,726
Total Net Position - Beginning	<u>560,901</u>	<u>285,629</u>	<u>846,530</u>
Total Net Position - Ending	<u>\$ 635,455</u>	<u>\$ 259,801</u>	<u>\$ 895,256</u>

INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE

To the Honorable Mayor and
Members of the City Council
City of Mahanomen
Mahanomen, 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, business-type activities, each major fund and the aggregate remaining fund information of the City of Mahanomen, Minnesota, as of and for the year ended December 31, 2022, and have issued our report thereon dated June 30, 2023. A qualified opinion was issued for the year ended December 31, 2022 over the governmental activities for not implementing Governmental Accounting Standards Board No. 68, *Accounting and Financial Reporting for Pensions* for the Fire Relief Association, which should be included in order to conform with accounting principles generally accepted in the United States of America.

Legal Compliance

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

Purpose of the Report

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



BRADY, MARTZ & ASSOCIATES, P.C.
GRAND FORKS, NORTH DAKOTA

June 30, 2023

**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**

To the Honorable Mayor and
Members of the City Council
City of Mahanomen
Mahanomen, 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, business-type activities, each major fund, and the aggregate remaining fund information of the City of Mahanomen, Minnesota as of and for the year ended December 31, 2022, 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 30, 2023. A qualified opinion was issued for the year ended December 31, 2022 over the governmental activities for not implementing Governmental Accounting Standards Board No. 68, *Accounting and Financial Reporting for Pensions* for the Fire Relief Association, which should be included in order to conform with accounting principles generally accepted in the United States of America.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Mahanomen'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 preceding paragraph 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 have not been identified. However, as described in the accompanying schedule of findings and responses, we identified a deficiency in internal control that we consider to be a material weakness and one deficiency we consider to be a significant deficiency.

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 deficiency described in the accompanying schedule of findings and responses as item 2022-001 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and responses as item 2022-002 to be a significant deficiency.

Report on Compliance and Other Matters

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

The City's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the City's responses to the findings identified in our audit and described in the accompanying schedule of findings and responses. The City's responses were not subjected to the other 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 entity'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.



BRADY, MARTZ & ASSOCIATES, P.C.
GRAND FORKS, NORTH DAKOTA

June 30, 2023

CITY OF MAHNOMEN
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2022

Findings Related to Financial Statements

2022-001 Material Weakness

Criteria: An appropriate system of internal control requires the City to prepare financial statements in compliance with generally accepted accounting principles (GAAP).

Condition: The City's personnel prepare periodic financial information for internal use that meets the needs of management and the council. However, the City does not prepare the financial statements, including the accompanying note disclosures, as required by GAAP. The City has elected to have the auditors assist in the preparation of the financial statements and notes.

Cause: The City elected to not allocate resources for the preparation of the financial statements.

Effect: There is an increased risk of material misstatement to the City's financial statements.

Recommendation: We recommend the City consider the additional risk of having the auditors assist in the preparation of the financial statements and note disclosures and consider preparing them in the future. As a compensating control, the City should establish an internal control policy to document the annual review of the financial statements and schedules and to review a financial statement disclosure checklist.

Repeat Finding: Yes. Prior audit finding 2021-001

Views of Responsible Officials and Planned Corrective Actions:

Management agrees with the recommendation and will review on an annual basis.

CITY OF MAHNOMEN
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2022

2022-002 Significant Deficiency

Criteria: Generally, a system of internal control has the proper separation of duties between authorization, custody, record keeping and reconciliation.

Condition: The City has one employee who is responsible for the majority of the accounting functions. The employee handles incoming monies, prepares the receipt documents, prepares deposits, issues checks and distributes them, and receives and reconciles the bank statements. The employee maintains the general ledger and has check signing authority.

Cause: Size and budget constraints limiting the number of personnel within the City.

Effect: The design of the internal control over financial reporting could adversely affect the ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Recommendation: The City's current structure does not allow for proper segregation of duties to assure adequate internal control over financial reporting. The Board should constantly be aware of this condition. Compensating controls that mitigate the related risks could be (or are) provided through appropriate oversight of the performance of these functions and review of the financial reports by individuals with knowledge of current operations and accounting principles.

Repeat Finding: Yes. Prior audit finding 2021-002

Views of Responsible Officials and Planned Corrective Actions:

Management agrees with the recommendation and will review on an annual basis.

**CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED DECEMBER 31, 2022**

2022-001

Contact Person – City Administrator

Planned Corrective Action - The City will continue to document the annual review of the financial statements, schedules and related notes.

Planned Completion Date – Ongoing.

2022-002

Contact Person – City Administrator

Planned Corrective Action - The City has the following procedures to mitigate the risk:

- 1) City Council approves all disbursements.
- 2) Disbursements require dual signatures.

When it becomes economically feasible, the City will hire additional personnel in the accounting department to improve segregation of duties.

Planned Completion Date – Ongoing

FORM OF LEGAL OPINION

(See following pages)

PROPOSED FORM OF LEGAL OPINION

\$ _____
GENERAL OBLIGATION CAPITAL IMPROVEMENT PLAN BONDS, SERIES 2024A
CITY OF MAHNOMEN
MAHNOMEN COUNTY
MINNESOTA

We have acted as bond counsel in connection with the issuance by the City of Mahnomen, Mahnomen County, Minnesota (the "Issuer"), of its \$ _____ General Obligation Capital Improvement Plan Bonds, Series 2024A, bearing a date of original issue of January 29, 2024 (the "Bonds"). We have examined the law and such certified proceedings and other documents as we deem necessary to render this opinion.

We have not been engaged or undertaken to review the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Bonds, and we express no opinion relating thereto.

As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications of public officials furnished to us without undertaking to verify the same by independent investigation.

Based upon such examinations, and assuming the authenticity of all documents submitted to us as originals, the conformity to original documents of all documents submitted to us as certified or photostatic copies and the authenticity of the originals of such documents, and the accuracy of the statements of fact contained in such documents, and based upon present Minnesota and federal laws (which excludes any pending legislation which may have a retroactive effect on or before the date hereof), regulations, rulings and decisions, it is our opinion that:

(1) The proceedings show lawful authority for the issuance of the Bonds according to their terms under the Constitution and laws of the State of Minnesota now in force.

(2) The Bonds are valid and binding general obligations of the Issuer, and all of the taxable property within the Issuer's jurisdiction is subject to the levy of an ad valorem tax to pay the same without limitation as to rate or amount; provided that the enforceability (but not the validity) of the Bonds and the pledge of taxes for the payment of the principal and interest thereon is subject to the exercise of judicial discretion in accordance with general principles of equity, to the constitutional powers of the United States of America and to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted.

(3) At the time of the issuance and delivery of the Bonds to the original purchaser, the interest on the Bonds is excluded from gross income for United States income tax purposes and

is excluded, to the same extent, from both gross income and taxable net income for State of Minnesota income tax purposes (other than Minnesota franchise taxes measured by income and imposed on corporations and financial institutions), and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals or the Minnesota alternative minimum tax applicable to individuals, estates or trusts; however, interest on the Bonds is taken into account in determining "annual adjusted financial statement income" for the purpose of computing the federal alternative minimum tax imposed on certain corporations for tax years beginning after December 31, 2022. The opinions set forth in the preceding sentence are subject to the condition that the Issuer comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes and from both gross income and taxable net income for State of Minnesota income tax purposes. Failure to comply with certain of such requirements may cause the inclusion of interest on the Bonds in gross income and taxable net income retroactive to the date of issuance of the Bonds.

We express no opinion regarding other state or federal tax consequences caused by the receipt or accrual of interest on the Bonds or arising with respect to ownership of the Bonds.

This opinion is given as of the date hereof, and we assume no obligation to update, revise, or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur and be retroactive.

TAFT STETTINIUS & HOLLISTER LLP

BOOK-ENTRY-ONLY SYSTEM

1. The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the securities (the "Securities"). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for [each issue of] the Securities, [each] in the aggregate principal amount of such issue, and will be deposited with DTC. [If, however, the aggregate principal amount of [any] issue exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.]
2. DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.
3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC's records. The ownership interest of each actual purchaser of each Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.
4. To facilitate subsequent transfers, all Securities deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. [Beneficial Owners of Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.]
6. Redemption notices shall be sent to DTC. If less than all of the Securities within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.
7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).
8. Redemption proceeds, distributions, and dividend payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Agent, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.
9. A Beneficial Owner shall give notice to elect to have its Securities purchased or tendered, through its Participant, to [Tender/Remarketing] Agent, and shall effect delivery of such Securities by causing the Direct Participant to transfer the Participant's interest in the Securities, on DTC's records, to [Tender/Remarketing] Agent. The requirement for physical delivery of Securities in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Securities are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Securities to [Tender/Remarketing] Agent's DTC account.
10. DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to the City or Agent. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.
11. The City may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered to DTC.
12. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the accuracy thereof.

FORM OF CONTINUING DISCLOSURE UNDERTAKING

(See following pages)

PROPOSED FORM OF CONTINUING DISCLOSURE UNDERTAKING

This Continuing Disclosure Undertaking (the "Disclosure Undertaking") is executed and delivered by the City of Mahanomen, Minnesota (the "Issuer"), in connection with the issuance of its \$_____ General Obligation Capital Improvement Plan Bonds, Series 2024A (the "Bonds"). The Bonds are being issued pursuant to a Resolution adopted on January 16, 2024 (the "Resolution"). Pursuant to the Resolution and this Disclosure Undertaking, the Issuer covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Undertaking. This Disclosure Undertaking is being executed and delivered by the Issuer for the benefit of the Owners and in order to assist the Participating Underwriters in complying with SEC Rule 15c2-12(b)(5).

SECTION 2. Definitions. In addition to the definitions set forth in the Resolution, which apply to any capitalized term used in this Disclosure Undertaking unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any annual financial information provided by the Issuer pursuant to, and as described in, Sections 3 and 4 of this Disclosure Undertaking.

"Audited Financial Statements" shall mean the financial statements of the Issuer audited annually by an independent certified public accounting firm, prepared pursuant to generally accepted accounting principles promulgated by the Financial Accounting Standards Board, modified by governmental accounting standards promulgated by the Government Accounting Standards Board.

"Dissemination Agent" shall mean such party from time to time designated in writing by the Issuer to act as information dissemination agent and which has filed with the Issuer a written acceptance of such designation.

"Financial Obligation" shall mean a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) guarantee of (i) or (ii). This term shall not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule.

"Fiscal Year" shall be the fiscal year of the Issuer.

"Governing Body" shall, with respect to the Bonds, have the meaning given that term in Minnesota Statutes, Section 475.51, Subdivision 9.

"MSRB" shall mean the Municipal Securities Rulemaking Board.

"Occurrence(s)" shall mean any of the events listed in Section 4 of this Disclosure Undertaking.

"Official Statement" shall be the Official Statement dated _____, 2023, prepared in connection with the Bonds.

"Owners" shall mean the registered holders and, if not the same, the beneficial owners of any Bonds.

"Participating Underwriter" shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"Resolution" shall mean the resolution or resolutions adopted by the Governing Body of the Issuer providing for, and authorizing the issuance of, the Bonds.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time or interpreted by the Securities and Exchange Commission.

SECTION 3. Provision of Annual Reports.

A. Beginning in connection with the Fiscal Year ending on December 31, 2023, the Issuer shall, or shall cause the Dissemination Agent to provide, at least annually to the MSRB, by filing at www.emma.msrb.org, together with such identifying information as prescribed by the MSRB, its Audited Financial Statements for the most recent Fiscal Year, which is the only financial information or operating data which is customarily prepared by the Issuer and publicly available, by not later than December 31, 2024, and by December 31 of each year thereafter.

B. If the Issuer is unable to provide to the MSRB its Audited Financial Statements by the date required in subsection A, the Issuer shall send a notice of such delay and estimated date of delivery to the MSRB.

SECTION 4. Reporting of Significant Events. This Section 4 shall govern the giving of notices of the occurrence of any of the following events with respect to the Bonds:

- (1) Principal and interest payment delinquencies;
- (2) Non-payment related defaults, if material;
- (3) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) Substitution of credit or liquidity providers, or their failure to perform;
- (6) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;
- (7) Modifications to rights of security holders, if material;
- (8) Bond calls, if material, and tender offers;
- (9) Defeasances;
- (10) Release, substitution, or sale of property securing repayment of the Bonds, if material;
- (11) Rating changes;
- (12) Bankruptcy, insolvency, receivership or similar event of the Issuer;
- (13) The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive

- agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;
- (14) Appointment of a successor or additional trustee or the change of name of a trustee, if material;
 - (15) Incurrence of a Financial Obligation of the obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the obligated person, any of which affect security holders, if material; and,
 - (16) Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the obligated person, any of which reflect financial difficulties.

Whenever an event listed above has occurred, the Issuer shall promptly, which may not be in excess of the ten (10) business days after the Occurrence, file a notice of such Occurrence with the MSRB, by filing at www.emma.msrb.org, together with such identifying information as prescribed by the MSRB.

SECTION 5. Termination of Reporting Obligation. The Issuer's obligations under this Disclosure Undertaking shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds.

SECTION 6. Dissemination Agent. The Issuer may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Undertaking, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent.

SECTION 7. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Undertaking, the Issuer may amend this Disclosure Undertaking, and any provision of this Disclosure Undertaking may be waived, if (a) a change in law or change in the ordinary business or operation of the Issuer has occurred, (b) such amendment or waiver would not, in and of itself, cause the undertakings herein to violate the Rule if such amendment or waiver had been effective on the date hereof but taking into account any subsequent change in or official interpretation of the Rule, and (c) such amendment or waiver is supported by an opinion of counsel expert in federal securities laws to the effect that such amendment or waiver would not materially impair the interests of Owners.

SECTION 8. Additional Information. Nothing in this Disclosure Undertaking shall be deemed to prevent the Issuer from disseminating any other information, using the means of dissemination set forth in this Disclosure Undertaking or any other means of communication, or including any other information in any Annual Report or notice of an Occurrence, in addition to that which is required by this Disclosure Undertaking. If the Issuer chooses to include any information in any Annual Report or notice of an Occurrence in addition to that which is specifically required by this Disclosure Undertaking, the Issuer shall have no obligation under this Disclosure Undertaking to update such information or include it in any future Annual Report or notice of an Occurrence.

SECTION 9. Default. In the event of a failure of the Issuer to provide information required by this Disclosure Undertaking, any Owner may take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the Issuer to comply with its obligations to provide information under this Disclosure Undertaking. A default under this Disclosure Undertaking shall not be deemed an Event of Default under the Resolution, and the sole remedy under this Disclosure Undertaking in the event of any failure of the Issuer to comply with this Disclosure Undertaking shall be an action to compel performance.

SECTION 10. Beneficiaries. This Disclosure Undertaking shall inure solely to the benefit of the Issuer, the Participating Underwriters and Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 11. Reserved Rights. The Issuer reserves the right to discontinue providing any information required under the Rule if a final determination should be made by a court of competent jurisdiction that the Rule is invalid or otherwise unlawful or, subject to the provisions of Section 7 hereof, to modify the undertaking under this Disclosure Undertaking if the Issuer determines that such modification is required by the Rule or by a court of competent jurisdiction.

Dated: January 29, 2024.

CITY OF MAHNOMEN, MINNESOTA

By _____
Its Mayor

By _____
Its City Administrator

APPENDIX E

TERMS OF PROPOSAL

\$635,000* GENERAL OBLIGATION CAPITAL IMPROVEMENT PLAN BONDS, SERIES 2024A CITY OF MAHNOMEN, MINNESOTA

Proposals for the purchase of \$635,000* General Obligation Capital Improvement Plan Bonds, Series 2024A (the "Bonds") of the City of Mahanomen, Minnesota (the "City") will be received at the offices of Ehlers and Associates, Inc. ("Ehlers"), 3060 Centre Pointe Drive, Roseville, Minnesota 55113-1105, municipal advisors to the City, until 10:00 A.M., Central Time, and **ELECTRONIC PROPOSALS** will be received via bondsale@ehlers-inc.com or **PARITY**, in the manner described below, until 10:00 A.M. Central Time, on January 16, 2024, at which time they will be opened, read and tabulated. The proposals will be presented to the City Council for consideration for award by resolution at a meeting to be held at 5:30 P.M., Central Time, on the same date. The proposal offering to purchase the Bonds upon the terms specified herein and most favorable to the City will be accepted unless all proposals are rejected.

AUTHORITY; PURPOSE; SECURITY

The Bonds are authorized pursuant to Minnesota Statutes, Section 475.521 and 475.67, and Chapter 475, as amended, by the City, for the purpose of effecting a current refunding of certain outstanding general obligations of the City. The Bonds will be general obligations of the City for which its full faith and credit and taxing powers are pledged.

DATES AND MATURITIES

The Bonds will be dated January 29, 2024, will be issued as fully registered Bonds in the denomination of \$5,000 each, or any integral multiple thereof, and will mature on February 1 as follows:

<u>Year</u>	<u>Amount*</u>	<u>Year</u>	<u>Amount*</u>	<u>Year</u>	<u>Amount*</u>
2026	\$45,000	2030	\$55,000	2034	\$65,000
2027	50,000	2031	60,000	2035	65,000
2028	50,000	2032	60,000	2036	70,000
2029	55,000	2033	60,000		

ADJUSTMENT OPTION

The City reserves the right to increase or decrease the principal amount of the Bonds on the day of sale, in increments of \$5,000 each. Increases or decreases may be made in any maturity. If any principal amounts are adjusted, the purchase price proposed will be adjusted to maintain the same gross spread per \$1,000.

TERM BOND OPTION

Proposals for the Bonds may contain a maturity schedule providing for any combination of serial Bonds and term Bonds, subject to mandatory redemption, so long as the amount of principal maturing or subject to mandatory redemption in each year conforms to the maturity schedule set forth above. All dates are inclusive.

INTEREST PAYMENT DATES AND RATES

Interest will be payable on February 1 and August 1 of each year, commencing August 1, 2024, to the registered owners of the Bonds appearing of record in the bond register as of the close of business on the 15th day (whether or not a business day) of the immediately preceding month. Interest will be computed upon the basis of a 360-day year of twelve 30-day months and will be rounded pursuant to rules of the Municipal Securities Rulemaking Board. **The rate for any maturity may not be more than 1.00% less than the rate for any preceding maturity. (For example, if a rate of 4.50% is proposed for the 2026 maturity, then the lowest rate that may be proposed for any later maturity is 3.50%.)** All Bonds of the same maturity must bear interest from date of issue until paid at a single, uniform rate. Each rate must be expressed in an integral multiple of 5/100 or 1/8 of 1%.

BOOK-ENTRY-ONLY FORMAT

Unless otherwise specified by the purchaser, the Bonds will be designated in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds, and will be responsible for maintaining a book-entry system for recording the interests of its participants and the transfers of interests between its participants. The participants will be responsible for maintaining records regarding the beneficial interests of the individual purchasers of the Bonds. So long as Cede & Co. is the registered owner of the Bonds, all payments of principal and interest will be made to the depository which, in turn, will be obligated to remit such payments to its participants for subsequent disbursement to the beneficial owners of the Bonds.

PAYING AGENT

The City has selected Bond Trust Services Corporation, Roseville, Minnesota ("BTSC"), to act as paying agent (the "Paying Agent"). BTSC and Ehlers are affiliate companies. The City will pay the charges for Paying Agent services. The City reserves the right to remove the Paying Agent and to appoint a successor.

OPTIONAL REDEMPTION

At the option of the City, the Bonds maturing on or after February 1, 2035 shall be subject to optional redemption prior to maturity on February 1, 2034 or any date thereafter, at a price of par plus accrued interest to the date of optional redemption.

Redemption may be in whole or in part of the Bonds subject to prepayment. If redemption is in part, the selection of the amounts and maturities of the Bonds to be redeemed shall be at the discretion of the City. If only part of the Bonds having a common maturity date are called for redemption, then the City or Paying Agent, if any, will notify DTC of the particular amount of such maturity to be redeemed. DTC will determine by lot the amount of each participant's interest in such maturity to be redeemed and each participant will then select by lot the beneficial ownership interest in such maturity to be redeemed.

Notice of redemption shall be sent by mail not more than 60 days and not less than 30 days prior to the date fixed for redemption to the registered owner of each Bond to be redeemed at the address shown on the registration books.

DELIVERY

On or about January 29, 2024, the Bonds will be delivered without cost to the winning bidder at DTC. On the day of closing, the City will furnish to the winning bidder the opinion of bond counsel hereinafter described, an arbitrage certification, and certificates verifying that no litigation in any manner questioning the validity of the Bonds is then pending or, to the best knowledge of officers of the City, threatened. Payment for the Bonds must be received by the City at its designated depository on the date of closing in immediately available funds.

LEGAL OPINION

An opinion as to the validity of the Bonds and the exemption from taxation of the interest thereon will be furnished by Taft Stettinius & Hollister LLP, Minneapolis, Minnesota, Bond Counsel to the City ("Bond Counsel"), and will be available at the time of delivery of the Bonds. The legal opinion will state that the Bonds are valid and binding general obligations of the City; provided that the rights of the owners of the Bonds and the enforceability of the Bonds may be limited by bankruptcy, insolvency, reorganization, moratorium, and other similar laws affecting creditors' rights and by equitable principles (which may be applied in either a legal or equitable proceeding). See "FORM OF LEGAL OPINION" found in Appendix B.

By expressing its opinion, Bond Counsel is expressing its professional judgment and does not become an insurer or guarantor of the result indicated by that expression of professional judgment or of the transaction or the future performance of the parties to the transaction. Ownership of the Bonds may result in other state and local tax consequences to certain taxpayers. Bond Counsel expresses no opinion regarding any such collateral consequences arising with respect to the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding the applicability of any such state and local taxes.

STATEMENT REGARDING BOND COUNSEL PARTICIPATION

Bond Counsel has neither been engaged nor undertaken to prepare or independently verify the accuracy of any portion of the Official Statement, including the financial or operational information of the Issuer and risks associated with the purchase of the Bonds, except for statements under "TAX EXEMPTION" herein that summarize certain provisions of the Internal Revenue Code of 1986, as amended, the Bonds and any opinion rendered by Bond Counsel. Bond Counsel has prepared the form of legal opinion attached hereto as "APPENDIX B – FORM OF LEGAL OPINION."

SUBMISSION OF PROPOSALS

Proposals must not be for less than \$625,475 plus accrued interest on the principal sum of \$635,000 from date of original issue of the Bonds to date of delivery. Prior to the time established above for the opening of proposals, interested parties may submit a proposal as follows:

- 1) Electronically to bondsale@ehlers-inc.com; or
- 2) Electronically via **PARITY** in accordance with this Terms of Proposal until 10:00 A.M. Central Time, but no proposal will be received after the time for receiving proposals specified above. To the extent any instructions or directions set forth in **PARITY** conflict with this Terms of Proposal, the terms of this Terms of Proposal shall control. For further information about **PARITY**, potential bidders may contact IHS Markit (now part of S&P Global) at <https://ihsmarkit.com/products/municipal-issuance.html> or via telephone (844) 301-7334.

Proposals must be submitted to Ehlers via one of the methods described above and must be received prior to the time established above for the opening of proposals. Each proposal must be unconditional except as to legality. Neither the City nor Ehlers shall be responsible for any failure to receive a facsimile submission.

A good faith deposit ("Deposit") in the amount of \$12,700 shall be made by the winning bidder by wire transfer of funds. Such Deposit shall be received by Ehlers no later than two hours after the proposal opening time. Wire transfer instructions will be provided to the winning bidder by Ehlers after the tabulation of proposals. The City reserves the right to award the Bonds to a winning bidder whose wire transfer is initiated but not received by such time provided that such winning bidder's federal wire reference number has been received by such time. In the event the Deposit is not received as provided above, the City may award the Bonds to the bidder submitting the next best proposal provided such bidder agrees to such award. The Deposit will be retained by the City as liquidated damages if the proposal is accepted and the Purchaser fails to comply therewith.

The City and the winning bidder who chooses to so wire the Deposit hereby agree irrevocably that Ehlers shall be the escrow holder of the Deposit wired to such account subject only to these conditions and duties: 1) All income earned thereon shall be retained by the escrow holder as payment for its expenses; 2) If the proposal is not accepted, Ehlers shall, at its expense, promptly return the Deposit amount to the winning bidder; 3) If the proposal is accepted, the Deposit shall be returned to the winning bidder at the closing; 4) Ehlers shall bear all costs of maintaining the escrow account and returning the funds to the winning bidder; 5) Ehlers shall not be an insurer of the Deposit amount and shall have no liability hereunder except if it willfully fails to perform or recklessly disregards, its duties specified herein; and 6) FDIC insurance on deposits within the escrow account shall be limited to \$250,000 per bidder.

No proposal can be withdrawn after the time set for receiving proposals unless the meeting of the City scheduled for award of the Bonds is adjourned, recessed, or continued to another date without award of the Bonds having been made.

AWARD

The Bonds will be awarded to the bidder offering the lowest interest rate to be determined on a True Interest Cost (TIC) basis. The City's computation of the interest rate of each proposal, in accordance with customary practice, will be controlling. In the event of a tie, the sale of the Bonds will be awarded by lot. The City reserves the right to reject any and all proposals and to waive any informality in any proposal.

BOND INSURANCE

If the Bonds are qualified for any bond insurance policy, the purchase of such policy shall be at the sole option and expense of the winning bidder. Any cost for such insurance policy is to be paid by the winning bidder, except that, if the City requested and received a rating on the Bonds from a rating agency, the City will pay that rating fee. Any rating agency fees not requested by the City are the responsibility of the winning bidder.

Failure of the municipal bond insurer to issue the policy after the Bonds are awarded to the winning bidder shall not constitute cause for failure or refusal by the winning bidder to accept delivery of the Bonds.

CUSIP NUMBERS

The City will assume no obligation for the assignment or printing of CUSIP numbers on the Bonds or for the correctness of any numbers printed thereon, but will permit such numbers to be printed at the expense of the winning bidder, if the winning bidder waives any delay in delivery occasioned thereby.

QUALIFIED TAX-EXEMPT OBLIGATIONS

The City will designate the Bonds as "qualified tax-exempt obligations" for purposes of Section 265(b)(3) of the Internal Revenue Code of 1986, as amended.

CONTINUING DISCLOSURE

In order to assist the Underwriter (Syndicate Manager) in complying with the provisions of Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934 the City will enter into an undertaking for the benefit of the holders of the Bonds. A description of the details and terms of the undertaking is set forth in Appendix D of the Preliminary Official Statement.

NEW ISSUE PRICING

The winning bidder will be required to provide, in a timely manner, certain information necessary to compute the yield on the Bonds pursuant to the provisions of the Internal Revenue Code of 1986, as amended, and to provide a certificate which will be provided by Bond Counsel upon request.

(a) The winning bidder shall assist the City in establishing the issue price of the Bonds and shall execute and deliver to the City at closing an "issue price" or similar certificate satisfactory to Bond Counsel setting forth the reasonably expected initial offering price to the public or the sales price or prices of the Bonds, together with the supporting pricing wires or equivalent communications. All actions to be taken by the City under this Terms of Proposal to establish the issue price of the Bonds may be taken on behalf of the City by the City's municipal advisor identified herein and any notice or report to be provided to the City may be provided to the City's municipal advisor.

(b) The City intends that the provisions of Treasury Regulation Section 1.148-1(f)(3)(i) (defining "competitive sale" for purposes of establishing the issue price of the Bonds) will apply to the initial sale of the Bonds (the "competitive sale requirements") because:

- (1) The City shall disseminate this Terms of Proposal to potential underwriters in a manner that is reasonably designed to reach potential investors;
- (2) all bidders shall have an equal opportunity to bid;
- (3) the City may receive proposals from at least three underwriters of municipal bonds who have established industry reputations for underwriting new issuances of municipal bonds; and
- (4) the City anticipates awarding the sale of the Bonds to the bidder who submits a firm offer to purchase the Bonds at the highest price (or lowest interest cost), as set forth in this Terms of Proposal.

Any proposal submitted pursuant to this Terms of Proposal shall be considered a firm offer for the purchase of the Bonds, as specified in this proposal.

(c) If all of the requirements of a "competitive sale" are not satisfied, the City shall advise the winning bidder of such fact prior to the time of award of the sale of the Bonds to the winning bidder. In such event, any proposal submitted will not be subject to cancellation or withdrawal and the City agrees to use the rule selected by the winning bidder on its proposal form to determine the issue price for the Bonds. On its proposal form, each bidder must select one of the following two rules for determining the issue price of the Bonds: (1) the first price at which 10% of a maturity of the Bonds (the "10% test") is sold to the public as the issue price of that maturity or (2) the initial offering price to the public as of the sale date as the issue price of each maturity of the Bonds (the "hold-the-offering-price rule").

(d) If all of the requirements of a "competitive sale" are not satisfied and the winning bidder selects the hold-the-offering-price rule, the winning bidder shall (i) confirm that the underwriters have offered or will offer the Bonds to the public on or before the date of award at the offering price or prices (the "initial offering price"), or at the corresponding yield or yields, set forth in the proposal submitted by the winning bidder and (ii) agree, on behalf of the underwriters participating in the purchase of the Bonds, that the underwriters will neither offer nor sell unsold Bonds of any maturity to which the hold-the-offering-price rule shall apply to any person at a price that is higher than the initial offering price to the public during the period starting on the sale date and ending on the earlier of the following:

(1) the close of the fifth (5th) business day after the sale date; or

(2) the date on which the underwriters have sold at least 10% of that maturity of the Bonds to the public at a price that is no higher than the initial offering price to the public.

The winning bidder will advise the City promptly after the close of the fifth (5th) business day after the sale whether it has sold 10% of that maturity of the Bonds to the public at a price that is no higher than the initial offering price to the public.

The City acknowledges that in making the representation set forth above, the winning bidder will rely on:

(i) the agreement of each underwriter to comply with requirements for establishing issue price of the Bonds, including, but not limited to, its agreement to comply with the hold-the-price rule, if applicable to the Bonds, as set forth in an agreement among underwriters and the related pricing wires,

(ii) in the event a selling group has been created in connection with the initial sale of the Bonds to the public, the agreement of each dealer who is a member of the selling group to comply with the requirements for establishing issue price of the Bonds, including, but not limited to, its agreement to comply with the hold-the-offering-price rule, if applicable to the Bonds, as set forth in a selling group agreement and the related pricing wires, and

(iii) in the event that an underwriter or dealer who is a member of the selling group is a party to a third-party distribution agreement that was employed in connection with the initial sale of the Bonds to the public, the agreement of each broker-dealer that is party to such agreement to comply with the requirements for establishing issue price of the Bonds, including, but not limited to, its agreement to comply with the hold-the-offering-price rule, if applicable to the Bonds, as set forth in the third-party distribution agreement and the related pricing wires. The City further acknowledges that each underwriter shall be solely liable for its failure to comply with its agreement regarding the requirements for establishing issue price rule of the Bonds, including, but not limited to, its agreement to comply with the hold-the-offering-price rule, if applicable to the Bonds, and that no underwriter shall be liable for the failure of any other underwriter, or of any dealer who is a member of a selling group, or of any broker-dealer that is a party to a third-party distribution agreement to comply with its corresponding agreement to comply with the requirements for establishing issue price of the Bonds, including, but not limited to, its agreement to comply with the hold-the-offering-price rule as applicable to the Bonds.

(e) If all of the requirements of a "competitive sale" are not satisfied and the winning bidder selects the 10% test, the winning bidder agrees to promptly report to the City, Bond Counsel and Ehlers the prices at which the Bonds have been sold to the public. That reporting obligation shall continue, whether or not the closing date has occurred, until either (i) all Bonds of that maturity have been sold or (ii) the 10% test has been satisfied as to each maturity of the Bonds, provided that, the winning bidder's reporting obligation after the Closing Date may be at reasonable periodic intervals or otherwise upon request of the City or bond counsel.

(f) By submitting a proposal, each bidder confirms that:

(i) any agreement among underwriters, any selling group agreement and each third-party distribution agreement (to which the bidder is a party) relating to the initial sale of the Bonds to the public, together with the related pricing wires, contains or will contain language obligating each underwriter, each dealer who is a member of the selling group, and each broker-dealer that is party to such third-party distribution agreement, as applicable, to:

(A) report the prices at which it sells to the public the unsold Bonds of each maturity allocated to it, whether or not the Closing Date has occurred until either all securities of that maturity allocated to it have been sold or it is notified by the winning bidder that either the 10% test has been satisfied as to the Bonds of that maturity, provided that, the reporting obligation after the Closing Date may be at reasonable periodic intervals or otherwise upon request of the City or bond counsel.

(B) comply with the hold-the-offering-price rule, if applicable, in each case if and for so long as directed by the winning bidder and as set forth in the related pricing wires, and

(ii) any agreement among underwriters or selling group agreement relating to the initial sale of the Bonds to the public, together with the related pricing wires, contains or will contain language obligating each underwriter, each dealer who is a member of the selling group and each broker dealer that is a party to a third-party distribution agreement to be employed in connection with the initial sale of the Bonds to the public to require each broker-dealer that is a party to such third-party distribution agreement to:

(A) to promptly notify the winning bidder of any sales of Bonds that, to its knowledge, are made to a purchaser who is a related party to an underwriter participating in the initial sale of the Bonds to the public (each such term being used as defined below), and

(B) to acknowledge that, unless otherwise advised by the underwriter, dealer or broker-dealer, the winning bidder shall assume that each order submitted by the underwriter, dealer or broker-dealer is a sale to the public.

(g) Sales of any Bonds to any person that is a related party to an underwriter participating in the initial sale of the Bonds to the public (each term being used as defined below) shall not constitute sales to the public for purposes of this Terms of Proposal. Further, for purposes of this Terms of Proposal:

- (i) "public" means any person other than an underwriter or a related party,
- (ii) "underwriter" means (A) any person that agrees pursuant to a written contract with the City (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Bonds to the public and (B) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (A) to participate in the initial sale of the Bonds to the public (including a member of a selling group or a party to a third-party distribution agreement participating in the initial sale of the Bonds to the public),
- (iii) a purchaser of any of the Bonds is a "related party" to an underwriter if the underwriter and the purchaser are subject, directly or indirectly, to (A) more than 50% common ownership of the voting power or the total value of their stock, if both entities are corporations (including direct ownership by one corporation of another), (B) more than 50% common ownership of their capital interests or profits interests, if both entities are partnerships (including direct ownership by one partnership of another), or (C) more than 50% common ownership of the value of the outstanding stock of the corporation or the capital interests or profit interests of the partnership, as applicable, if one entity is a corporation and the other entity is a partnership (including direct ownership of the applicable stock or interests by one entity of the other), and
- (iv) "sale date" means the date that the Bonds are awarded by the City to the winning bidder.

PRELIMINARY OFFICIAL STATEMENT

Bidders may obtain a copy of the Preliminary Official Statement relating to the Bonds prior to the proposal opening by request from Ehlers at www.ehlers-inc.com by connecting to the Bond Sales link. The Underwriter (Syndicate Manager) will be provided with an electronic copy of the Final Official Statement within seven business days of the proposal acceptance. Up to 10 printed copies of the Final Official Statement will be provided upon request. Additional copies of the Final Official Statement will be available at a cost of \$10.00 per copy.

Information for bidders and proposal forms may be obtained from Ehlers at 3060 Centre Pointe Drive, Roseville, Minnesota 55113-1105, Telephone (651) 697-8500.

By Order of the City Council

City of Mahnomen, Minnesota

PROPOSAL FORM

The City Council
City of Mahanomen, Minnesota (the "City")

January 16, 2024

RE: \$635,000* General Obligation Capital Improvement Plan Bonds, Series 2024A (the "Bonds")
DATED: January 29, 2024

For all or none of the above Bonds, in accordance with the Terms of Proposal and terms of the Global Book-Entry System (unless otherwise specified by the Purchaser) as stated in this Official Statement, we will pay you \$_____ (not less than \$625,475) plus accrued interest to date of delivery for fully registered Bonds bearing interest rates and maturing in the stated years as follows:

_____ % due 2026	_____ % due 2030	_____ % due 2034
_____ % due 2027	_____ % due 2031	_____ % due 2035
_____ % due 2028	_____ % due 2032	_____ % due 2036
_____ % due 2029	_____ % due 2033	

The City reserves the right to increase or decrease the principal amount of the Bonds on the day of sale, in increments of \$5,000 each. Increases or decreases may be made in any maturity. If any principal amounts are adjusted, the purchase price proposed will be adjusted to maintain the same gross spread per \$1,000.

The rate for any maturity may not be more than 1.00% less than the rate for any preceding maturity. (For example, if a rate of 4.50% is proposed for the 2026 maturity, then the lowest rate that may be proposed for any later maturity is 3.50%.) All Bonds of the same maturity must bear interest from date of issue until paid at a single, uniform rate. Each rate must be expressed in an integral multiple of 5/100 or 1/8 of 1%.

A rating for the Bonds may not be requested without contacting Ehlers and receiving the permission of the City.

A good faith deposit ("Deposit") in the amount of \$12,700 shall be made by the winning bidder by wire transfer of funds. Such Deposit shall be received by Ehlers no later than two hours after the proposal opening time. Wire transfer instructions will be provided to the winning bidder by Ehlers after the tabulation of proposals. The City reserves the right to award the Bonds to a winning bidder whose wire transfer is initiated but not received by such time provided that such winning bidder's federal wire reference number has been received by such time. In the event the Deposit is not received as provided above, the City may award the Bonds to the bidder submitting the next best proposal provided such bidder agrees to such award. The Deposit will be retained by the City as liquidated damages if the proposal is accepted and the Purchaser fails to comply therewith. We agree to the conditions and duties of Ehlers and Associates, Inc., as escrow holder of the Deposit, pursuant to the Terms of Proposal. This proposal is for prompt acceptance and is conditional upon delivery of said Bonds to The Depository Trust Company, New York, New York, in accordance with the Terms of Proposal. Delivery is anticipated to be on or about January 29, 2024.

This proposal is subject to the City's agreement to enter into a written undertaking to provide continuing disclosure under Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934 as described in the Preliminary Official Statement for the Bonds.

We have received and reviewed the Official Statement, and any addenda thereto, and have submitted our requests for additional information or corrections to the Final Official Statement. As Underwriter (Syndicate Manager), we agree to provide the City with the reoffering price of the Bonds within 24 hours of the proposal acceptance.

This proposal is a firm offer for the purchase of the Bonds identified in the Terms of Proposal, on the terms set forth in this proposal form and the Terms of Proposal, and is not subject to any conditions, except as permitted by the Terms of Proposal.

By submitting this proposal, we confirm that we are an underwriter and have an established industry reputation for underwriting new issuances of municipal bonds. YES: ____ NO: ____.

If the competitive sale requirements are not met, we elect to use either the: ____ 10% test, or the ____ hold-the-offering-price rule to determine the issue price of the Bonds.

Account Manager: _____ By: _____
Account Members: _____

Award will be on a true interest cost basis. According to our computations (the correct computation being controlling in the award), the total dollar interest cost (including any discount or less any premium) computed from January 29, 2024 of the above proposal is \$_____ and the true interest cost (TIC) is ____%.

The foregoing offer is hereby accepted by and on behalf of the City Council of the City of Mahanomen, Minnesota, on January 16, 2024.

By: _____ By: _____
Title: _____ Title: _____