



# Annual Financial Report

## City of Cologne

Cologne, Minnesota

For the year ended December 31, 2022



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City of Cologne, Minnesota  
Annual Financial Report  
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For the Year Ended December 31, 2022

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INTRODUCTORY SECTION

CITY OF COLOGNE  
COLOGNE, MINNESOTA

FOR THE YEAR ENDED  
DECEMBER 31, 2022

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City of Cologne, Minnesota  
Elected and Appointed Officials  
For the Year Ended December 31, 2022

**ELECTED**

Name	Title	Term Expires
Matt Lein	Mayor	12/31/2024
Carol Szaroletta	Council Member	12/31/2026
Sarah Bruss	Council Member	12/31/2024
Rachel Lenzen	Council Member	12/31/2026
Nathan Kells	Council Member	12/31/2024

**APPOINTED**

Name	Title
Jesse Dickson	City Administrator
Michelle Morrison	City Clerk
Lori Kasel	Utility Billing

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FINANCIAL SECTION

CITY OF COLOGNE  
COLOGNE, MINNESOTA

FOR THE YEAR ENDED  
DECEMBER 31, 2022

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## INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council  
City of Cologne, Minnesota

### Opinions

We have audited the accompanying financial statements of governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Cologne, Minnesota (the City), 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City as of December 31, 2022, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the General fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Basis for Opinions

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

### 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'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 Responsibility

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

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

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

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

## **Other Matters**

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis starting on page 15 and the Schedules of Employer's Share of the Net Pension Liability, the Schedules of Employer's Contributions, the related notes disclosures, the Schedule of Changes in Net Pension Liability (Asset) and Related Ratios starting on page 66 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Supplementary Information***

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



### ***Other Information***

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated April 18, 2023, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



**Abdo**  
Minneapolis, Minnesota  
April 18, 2023



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## **Management' Discussion and Analysis**

As management of the City of Cologne, Minnesota, (the City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2022.

### **Financial Highlights**

- The assets and deferred outflows or resources of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year as shown in the summary of net position on the following pages. The unrestricted amount of net position may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net position increased as shown in the summary of changes in net position table on the following pages. The increase this year was due to an increase in charges for services for services in governmental funds and charges for services in the business-type activities continuing to outweigh expenses.
- For the current fiscal year, the City's governmental funds fund balances are shown in the Financial Analysis of the City's Funds section of the MD&A. The total fund balance increased in comparison with the prior year. This increase was mainly due to a decrease in capital expenditures from prior year and property tax and other resources in excess of expenses. The total of assigned and unassigned as shown in the governmental fund balance table is available for spending at the City's discretion.
- The unassigned fund balance in the General fund as shown in the financial analysis of the city's funds section increased from prior year.
- The City's total bonded debt decreased during the fiscal year. The decrease was a result of regularly scheduled debt service payments as shown in the outstanding debt table.

## Overview of the Financial Statements

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

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

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

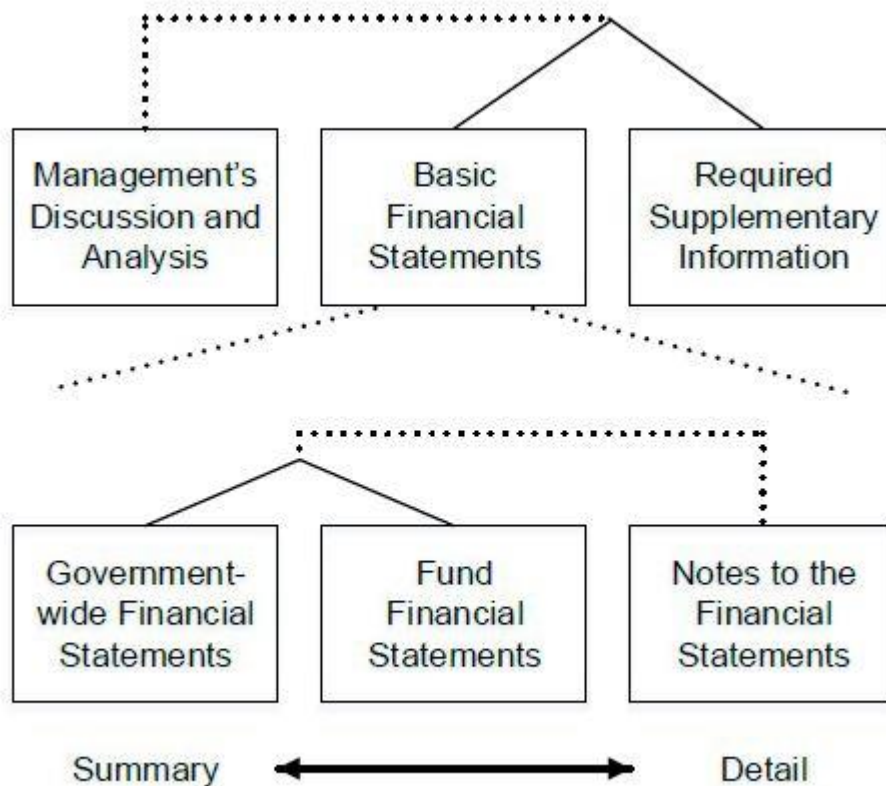




Figure 2 summarizes the major features of the City's financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the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

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

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

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

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

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

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenue (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, public works (streets and highways), culture and recreation, community development, miscellaneous and interest on long-term debt. The business-type activities of the City include water, sewer, and a municipal liquor store.

The government-wide financial statements start on page 29 of this report.

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact by the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General fund and Debt service fund, which are considered to be major funds. Data from the other governmental fund is presented as nonmajor.

The City adopts an annual appropriated budget for its General fund. A budgetary comparison statement has been provided for the General fund to demonstrate compliance with this budget.

The basic governmental fund financial statements start on page 34 of this report.

**Proprietary Funds.** *Proprietary funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its water, sewer, and stormwater operations.

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

The basic proprietary fund financial statements start on page 39 of this report.

**Notes to the Financial Statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements start on page 43 of this report.

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found starting on page 66 of this report.

**Other Information.** The combining statements referred to earlier in connection with nonmajor governmental funds is presented following the notes to the financial statements. Combining and individual fund statements and schedules start on page 73 of this report.

## Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$6,857,827 at the close of the most recent fiscal year.

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

### City of Cologne's Summary of Net Position

	Governmental Activities			Business-type Activities		
	2022	2021	Increase (Decrease)	2022	2021	Increase (Decrease)
<b>Assets</b>						
Current and other assets	\$ 3,753,091	\$ 3,669,689	\$ 83,402	\$ 1,354,859	\$ 1,351,193	\$ 3,666
Capital assets	9,104,240	9,379,524	(275,284)	12,519,337	12,826,599	(307,262)
Total Assets	<u>12,857,331</u>	<u>13,049,213</u>	<u>(191,882)</u>	<u>13,874,196</u>	<u>14,177,792</u>	<u>(303,596)</u>
<b>Deferred Outflows of Resources</b>						
Deferred pension resources	<u>176,353</u>	<u>182,880</u>	<u>(6,527)</u>	<u>44,210</u>	<u>66,846</u>	<u>(22,636)</u>
<b>Liabilities</b>						
Noncurrent liabilities outstanding	8,865,415	9,266,609	(401,194)	10,209,445	10,643,671	(434,226)
Other liabilities	<u>195,080</u>	<u>341,351</u>	<u>(146,271)</u>	<u>252,543</u>	<u>69,905</u>	<u>182,638</u>
Total Liabilities	<u>9,060,495</u>	<u>9,607,960</u>	<u>(547,465)</u>	<u>10,461,988</u>	<u>10,713,576</u>	<u>(251,588)</u>
<b>Deferred Inflows of Resources</b>						
Deferred pension resources	<u>83,258</u>	<u>213,070</u>	<u>(129,812)</u>	<u>4,548</u>	<u>84,298</u>	<u>(79,750)</u>
<b>Net Position</b>						
Net investment in capital assets	604,860	596,524	8,336	2,463,494	2,262,300	201,194
Restricted	1,259,269	877,568	381,701	-	-	-
Unrestricted	<u>2,025,802</u>	<u>1,936,971</u>	<u>88,831</u>	<u>988,376</u>	<u>1,184,464</u>	<u>(196,088)</u>
Total Net Position	<u>\$ 3,889,931</u>	<u>\$ 3,411,063</u>	<u>\$ 478,868</u>	<u>\$ 3,451,870</u>	<u>\$ 3,446,764</u>	<u>\$ 5,106</u>
<b>Net Position as a Percent of Total</b>						
Net investment in capital assets	15.5 %	17.5		71.4 %	65.6 %	
Restricted	32.4	25.7		-	-	
Unrestricted	<u>52.1</u>	<u>56.8</u>		<u>28.6</u>	<u>34.4</u>	
	<u>100.0 %</u>	<u>100.0</u>		<u>100.0 %</u>	<u>100.0 %</u>	

An additional portion of the City's net position represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position* may be used to meet the City's ongoing obligations to citizens and creditors. At the end of the current fiscal year, the City is able to report positive balances in all three categories of net position, for the City as a whole.

**Governmental Activities.** Governmental activities increased the City's net position as shown below. The increase this year was due to an increase in property taxes and charges for services for services in comparison to the prior year.

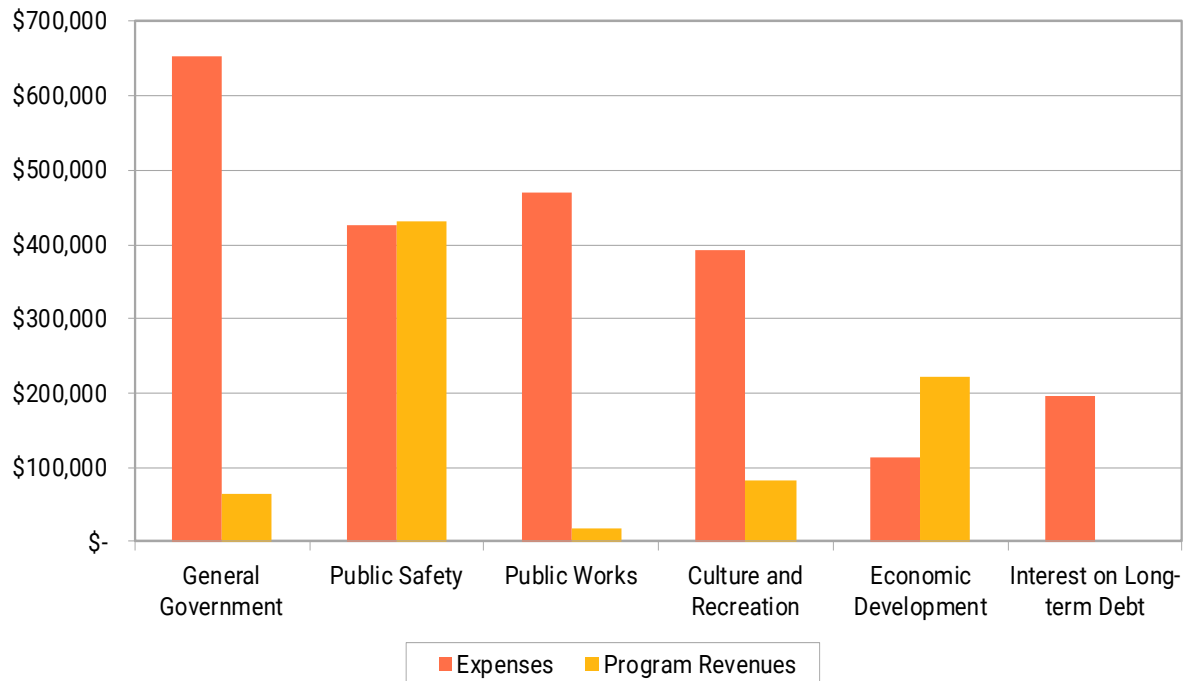
### City of Cologne's Changes in Net Position

	Governmental Activities			Business-type Activities		
	2022	2021	Increase (Decrease)	2022	2021	Increase (Decrease)
Revenues						
Program Revenues						
Charges for services	\$ 444,172	\$ 381,026	\$ 63,146	\$ 932,255	\$ 889,967	\$ 42,288
Operating grants and contributions	360,876	359,254	1,622	-	-	-
Capital grants and contributions	13,031	425,800	(412,769)	295,381	367,890	(72,509)
General Revenues						
Taxes						
Property taxes	1,614,706	1,504,028	110,678	-	-	-
Tax increment	10,765	10,731	34	-	-	-
Grants and contributions not restricted to specific programs	253,860	253,870	(10)	708	232	476
Unrestricted investment earnings	34,738	12,195	22,543	-	-	-
Total Revenues	<u>2,732,148</u>	<u>2,946,904</u>	<u>(214,756)</u>	<u>1,228,344</u>	<u>1,258,089</u>	<u>(29,745)</u>
Expenses						
General government	654,591	461,275	193,316	-	-	-
Public safety	425,931	362,152	63,779	-	-	-
Public works	470,215	465,386	4,829	-	-	-
Culture and recreation	391,736	324,688	67,048	-	-	-
Economic development	113,530	113,167	363	-	-	-
Interest on long-term debt	197,277	229,371	(32,094)	-	-	-
Water	-	-	-	644,706	630,243	14,463
Sewer	-	-	-	554,150	436,652	117,498
Stormwater	-	-	-	24,382	48,945	(24,563)
Total Expenses	<u>2,253,280</u>	<u>1,956,039</u>	<u>297,241</u>	<u>1,223,238</u>	<u>1,115,840</u>	<u>107,398</u>
Change in Net Position	478,868	990,865	(511,997)	5,106	142,249	(137,143)
Net Position, January 1	<u>3,411,063</u>	<u>2,420,198</u>	<u>990,865</u>	<u>3,446,764</u>	<u>3,304,515</u>	<u>142,249</u>
Net Position, December 31	<u>\$ 3,889,931</u>	<u>\$ 3,411,063</u>	<u>\$ 478,868</u>	<u>\$ 3,451,870</u>	<u>\$ 3,446,764</u>	<u>\$ 5,106</u>

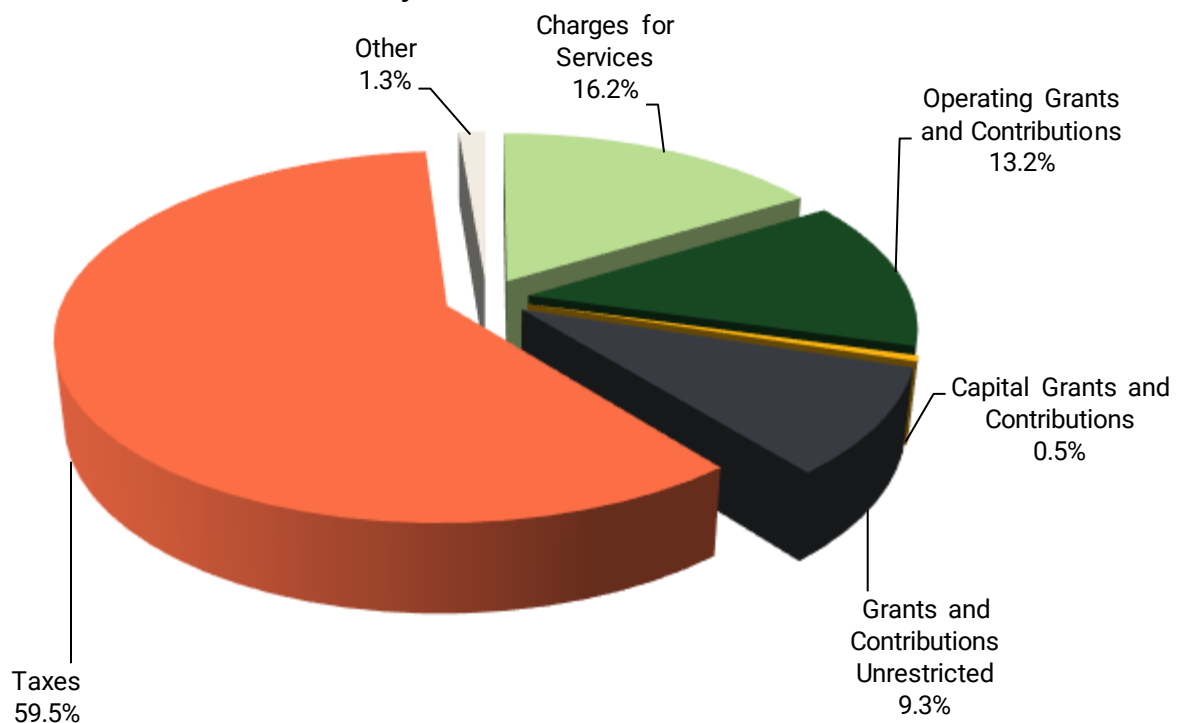
- Overall revenues decreased from the prior year. The main reason for the decrease was the decline in capital grants and contributions revenues due to new special assessments in the prior year for the City road improvement project.
- Expenses increased from the prior year. General Government expenditures increased during the year mainly due to economic development and other development related costs during the year for City development. The increases included professional services and legal fees.

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

### Expenses and Program Revenue - Governmental Activities



### Revenue by Source - Governmental Activities



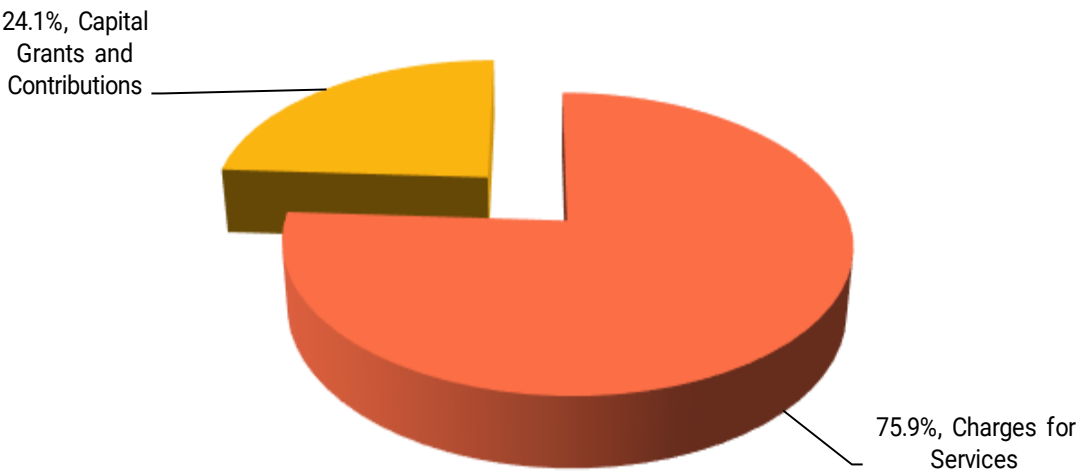
**Business-type Activities.** Business-type activities increased the City’s net position as noted in the table above. Key elements of the changes are listed below:

- Revenues in the business-type activities decreased mainly due to a decrease in capital grants and contributions received during the year from connection fees and grants.
- Expenses increased mainly due to the increased costs in the sewer fund for engineering and potential of sewer improvements in future years.

**Expenses and Program Revenues - Business-type Activities**



**Revenue by Source - Business-type Activities**



## Financial Analysis of the Government's Funds

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

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

	General Fund	Debt Service Fund	Nonmajor TIF 2-1	Total	Prior Year Total	Increase/ (Decrease)
Fund Balances						
Restricted	\$ 326,485	\$ 742,265	\$ 1,792	\$ 1,070,542	\$ 660,652	\$ 409,890
Assigned	1,283,531	-	-	1,283,531	-	1,283,531
Unassigned	815,061	-	-	815,061	2,302,407	(1,487,346)
	<u>\$ 2,425,077</u>	<u>\$ 742,265</u>	<u>\$ 1,792</u>	<u>\$ 3,169,134</u>	<u>\$ 2,963,059</u>	<u>\$ 206,075</u>

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances as shown above. Additional information on the City's fund balances can be found in Note 1 starting on page 48 of this report.

The *General fund* is the chief operating fund of the City. At the end of the current year, the fund balance of the General fund is shown in the table above. As a measure of the General fund's liquidity, it may be useful to compare unassigned fund balance to total fund expenditures. The total unassigned fund balance percent of total fund expenditures is shown in the chart below along with total fund balance as a percentage of total expenditures.

	Current Year Ending Balance	Prior Year Ending Balance	Increase/ (Decrease)
General Fund Fund Balances			
Restricted	\$ 326,485	\$ 37,098	\$ 289,387
Assigned	1,283,531	-	1,283,531
Unassigned	815,061	2,302,407	(1,487,346)
	<u>\$ 2,425,077</u>	<u>\$ 2,339,505</u>	<u>\$ 85,572</u>
General Fund expenditures	\$ 1,835,925	\$ 2,713,858	
Unassigned as a percent of expenditures	44.4%	84.8%	
Total Fund Balance as a percent of expenditures	132.1%	86.2%	

Other governmental fund analysis is shown below:

	December 31, 2022	December 31, 2021	Increase (Decrease)
Debt Service fund	\$ 742,265	622,301	119,964

*The Debt Service fund balance increased during the year mainly due tax and special assessment revenue exceeding scheduled principal and interest payments made on bonds during the year. The ending fund balance is restricted for future debt service.*

**Proprietary Funds.** The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Net position of the City's proprietary funds is as follows:

	Ending Net Position 2022	Ending Net Position 2021	Increase/ (Decrease)
Water	\$ 1,666,669	\$ 1,622,588	\$ 44,081
<i>The increase primarily is attributed to the capital contributions from connection fees during the year.</i>			
Sewer	1,593,656	1,666,269	(72,613)
<i>The decrease is primarily is attributed to increased repair and maintenance costs in comparison to the prior year.</i>			
Stormwater	191,545	157,907	33,638
<i>The Storm Water fund increased mainly due to a transfer from other funds for reimbursement of prior year expenses.</i>			

### General Fund Budgetary Highlights

The City's General fund budget was not amended during the year. Actual revenues were over budget due to a positive budget variance in intergovernmental revenue for receipt economic development grants and local government aid in excess of budget. Expenditures were over budget during the year mainly due to economic development expenses unbudgeted for development of Stars Early Learning Academy.

	Original Budgeted Amounts	Budget Amendments	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget
Revenues	\$ 1,403,604	\$ -	\$ 1,403,604	\$ 1,921,497	\$ 517,893
Expenditures	1,403,604	-	1,403,604	1,835,925	(432,321)
Net Change in Fund Balances	-	-	-	85,572	85,572
Fund Balances, January 1	2,339,505	-	2,339,505	2,339,505	-
Fund Balances, December 31	<u>\$ 2,339,505</u>	<u>\$ -</u>	<u>\$ 2,339,505</u>	<u>\$ 2,425,077</u>	<u>\$ 85,572</u>

### Capital Asset and Debt Administration

**Capital Assets.** The City's investment in capital assets for its governmental and business type activities as of December 31, 2022, amounts to \$21,623,577 (net of accumulated depreciation). This investment in capital assets includes land, structures, improvements, machinery and equipment, park facilities, and roads. The City completed the 2020 Street Project and capitalized additional remaining costs associated with the project. Other major capital additions that occurred throughout the year include the purchase of the 2023 Pickup Truck and the Dog Park Improvements project.



Additional information on the City's capital assets can be found in Note 3B starting on page 50 of this report.

### City of Cologne's Capital Assets (Net of Depreciation)

	Governmental Activities			Business-type Activities		
	2022	2021	Increase (Decrease)	2022	2021	Increase (Decrease)
Land	\$ 254,300	\$ 254,300	\$ -	\$ -	\$ -	\$ -
Construction in Progress	-	3,525,920	(3,525,920)	-	2,549,229	(2,549,229)
Buildings	1,685,392	1,768,504	(83,112)	195,834	257,161	(61,327)
Infrastructure	6,049,094	2,622,225	3,426,869	12,131,366	9,805,822	2,325,544
Machinery and Equipment	1,115,454	1,208,575	(93,121)	192,137	214,387	(22,250)
Total	<u>\$ 9,104,240</u>	<u>\$ 9,379,524</u>	<u>\$ (275,284)</u>	<u>\$ 12,519,337</u>	<u>\$ 12,826,599</u>	<u>\$ (307,262)</u>

**Long-term Debt.** At the end of the current fiscal year, the City had total bonded debt outstanding consisting of special assessment debt, revenue related debt and general obligation debt as noted in the table below. While all of the City's bonds have revenue streams, they are all backed by the full faith and credit of the City.

### City of Cologne's Outstanding Debt

	Governmental Activities			Business-type Activities		
	2022	2021	Increase (Decrease)	2022	2021	Increase (Decrease)
General Obligation Bonds	\$ 8,279,000	\$ 8,783,000	\$ (504,000)	\$ -	\$ -	\$ -
General Obligation Revenue Bonds	-	-	-	9,920,000	10,420,000	(500,000)
Bond Premium	220,380	235,470	(15,090)	135,843	144,299	(8,456)
Total	<u>\$ 8,499,380</u>	<u>\$ 9,018,470</u>	<u>\$ (519,090)</u>	<u>\$ 10,055,843</u>	<u>\$ 10,564,299</u>	<u>\$ (508,456)</u>

The City's total debt decreased during the current fiscal year. The key factor in this decrease was scheduled bond payments. Minnesota statutes limit the amount of net general obligation debt a City may issue to 3 percent of the market value of taxable property within the City. Net debt is debt payable solely from ad valorem taxes

Additional information on the City's long-term debt can be found in Note 3C starting on page 54 of this report.

### Economic Factors and Next Year's Budget and Rates

- The City expects to continue seeing steady population growth in the next five to ten years.
- The City recently completed a Utility Rate study and established new water and sewer rates effective January 1, 2023.
- The 2020 street improvement project and the Highway 284 retaining wall were completed in the summer of 2022.
- The City has an additional road projected in the Benton Creek area of the City with work being done summer and fall of 2023.
- The City has been working with the State Legislature to secure funding to replace the existing waste water treatment facility.

### Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Clerk, City of Cologne, 1211 Village Parkway, PO Box 120, Cologne MN, 55322.

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF COLOGNE  
COLOGNE, MINNESOTA

FOR THE YEAR ENDED  
DECEMBER 31, 2022

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City of Cologne, Minnesota  
Statement of Net Position  
December 31, 2022

	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Cash and temporary investments	\$ 3,018,437	\$ 1,003,211	\$ 4,021,648
Receivables			
Taxes	14,997	-	14,997
Accounts	246,663	83,843	330,506
Special assessments	283,207	267,805	551,012
Pension assets	189,787	-	189,787
Capital assets			
Land and construction in progress	254,300	-	254,300
Depreciable assets (net of accumulated depreciation)	8,849,940	12,519,337	21,369,277
Total Assets	<u>12,857,331</u>	<u>13,874,196</u>	<u>26,731,527</u>
<b>Deferred Outflows of Resources</b>			
Deferred pension resources	<u>176,353</u>	<u>44,210</u>	<u>220,563</u>
<b>Liabilities</b>			
Accounts payable	69,541	29,201	98,742
Accrued salaries payable	6,013	4,029	10,042
Accrued interest payable	94,480	56,198	150,678
Deposits payable	25,046	-	25,046
Unearned revenue	-	163,115	163,115
Noncurrent liabilities			
Due within one year			
Long-term debt	607,127	587,828	1,194,955
Due in more than one year			
Long-term debt	7,944,380	9,507,843	17,452,223
Net pension liability	313,908	113,774	427,682
Total Liabilities	<u>9,060,495</u>	<u>10,461,988</u>	<u>19,522,483</u>
<b>Deferred Inflows of Resources</b>			
Deferred pension resources	<u>83,258</u>	<u>4,548</u>	<u>87,806</u>
<b>Net Position</b>			
Net investment in capital assets	604,860	2,463,494	3,068,354
Restricted for			
Debt service	930,992	-	930,992
Tax increment	1,792	-	1,792
Fire Equipment	290,749	-	290,749
Louis Hall	27,736	-	27,736
Parks	8,000	-	8,000
Unrestricted	<u>2,025,802</u>	<u>988,376</u>	<u>3,014,178</u>
Total Net Position	<u>\$ 3,889,931</u>	<u>\$ 3,451,870</u>	<u>\$ 7,341,801</u>

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

City of Cologne, Minnesota  
Statement of Activities  
For the Year Ended December 31, 2022

Functions/Programs	Expenses	Program Revenue		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Governmental Activities</b>				
General government	\$ 654,591	\$ 14,672	\$ 49,768	\$ -
Public safety	425,931	340,994	90,242	-
Public works	470,215	5,560	-	13,031
Culture and recreation	391,736	82,946	-	-
Economic development	113,530	-	220,866	-
Interest on long-term debt	197,277	-	-	-
Total Governmental Activities	<u>2,253,280</u>	<u>444,172</u>	<u>360,876</u>	<u>13,031</u>
<b>Business-type Activities</b>				
Water	644,706	540,067	-	148,366
Sewer	554,150	359,605	-	147,015
Stormwater	24,382	32,583	-	-
Total Business-type Activities	<u>1,223,238</u>	<u>932,255</u>	<u>-</u>	<u>295,381</u>
<b>Total</b>	<u>\$ 3,476,518</u>	<u>\$ 1,376,427</u>	<u>\$ 360,876</u>	<u>\$ 308,412</u>

General Revenues

Taxes

Property taxes, levied for general purposes

Property taxes, levied for debt service

Tax increments

State grants and contributions not restricted to specific programs

Unrestricted investment earnings

Total General Revenues and Transfers

Change in Net Position

Net Position, January 1

Net Position, December 31

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

Net (Expenses) Revenues and  
Changes in Net Position

Governmental Activities	Business-type Activities	Total
\$ (590,151)	\$ -	\$ (590,151)
5,305	-	5,305
(451,624)	-	(451,624)
(308,790)	-	(308,790)
107,336	-	107,336
(197,277)	-	(197,277)
<u>(1,435,201)</u>	<u>-</u>	<u>(1,435,201)</u>
-	43,727	43,727
-	(47,530)	(47,530)
-	8,201	8,201
<u>-</u>	<u>4,398</u>	<u>4,398</u>
<u>(1,435,201)</u>	<u>4,398</u>	<u>(1,430,803)</u>
819,595	-	819,595
795,111	-	795,111
10,765	-	10,765
253,860	708	254,568
34,738	-	34,738
<u>1,914,069</u>	<u>708</u>	<u>1,914,777</u>
478,868	5,106	483,974
<u>3,411,063</u>	<u>3,446,764</u>	<u>6,857,827</u>
<u>\$ 3,889,931</u>	<u>\$ 3,451,870</u>	<u>\$ 7,341,801</u>

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

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FUND FINANCIAL STATEMENTS

CITY OF COLOGNE  
COLOGNE, MINNESOTA

FOR THE YEAR ENDED  
DECEMBER 31, 2022

City of Cologne, Minnesota

Balance Sheet  
Governmental Funds  
December 31, 2022

	101		Nonmajor	Total
	General	Debt Service	TIF 2-1	Governmental Funds
<b>Assets</b>				
Cash and temporary investments	\$ 2,266,134	\$ 740,285	\$ 12,018	\$ 3,018,437
Receivables				
Taxes	13,017	1,980	-	14,997
Accounts	246,663	-	-	246,663
Special assessments	-	283,207	-	283,207
<b>Total Assets</b>	<b>\$ 2,525,814</b>	<b>\$ 1,025,472</b>	<b>\$ 12,018</b>	<b>\$ 3,563,304</b>
<b>Liabilities</b>				
Accounts payable	\$ 59,315	\$ -	\$ 10,226	\$ 69,541
Accrued salaries payable	6,013	-	-	6,013
Deposits payable	25,046	-	-	25,046
<b>Total Liabilities</b>	<b>90,374</b>	<b>-</b>	<b>10,226</b>	<b>100,600</b>
<b>Deferred Inflows of Resources</b>				
Unavailable revenues - taxes	10,363	-	-	10,363
Unavailable revenues - special assessments	-	283,207	-	283,207
<b>Total Deferred Inflows of Resources</b>	<b>10,363</b>	<b>283,207</b>	<b>-</b>	<b>293,570</b>
<b>Fund Balances</b>				
Restricted for				
Debt service	-	742,265	-	742,265
Tax Increment	-	-	1,792	1,792
Fire Equipment	290,749	-	-	290,749
Louis Hall	27,736	-	-	27,736
Parks	8,000	-	-	8,000
Assigned for				
Capital	984,267	-	-	984,267
Parks	299,264	-	-	299,264
Unassigned	815,061	-	-	815,061
<b>Total Fund Balances</b>	<b>2,425,077</b>	<b>742,265</b>	<b>1,792</b>	<b>3,169,134</b>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>	<b>\$ 2,525,814</b>	<b>\$ 1,025,472</b>	<b>\$ 12,018</b>	<b>\$ 3,563,304</b>

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

City of Cologne, Minnesota  
Reconciliation of the Balance Sheet  
to the Statement of Net Position  
Governmental Funds  
December 31, 2022

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

Total Fund Balances - Governmental	\$ 3,169,134
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.	
Cost of capital assets	17,445,837
Less: accumulated depreciation	(8,341,597)
Long-term assets from pensions reported in governmental activities are not financial resources and therefore are not reported as assets in the funds.	189,787
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds.	
Long-term liabilities at year-end consist of	
Bond principal payable	(8,279,000)
Bond premium	(220,380)
Compensated absences payable	(52,127)
Net pension liability	(313,908)
Governmental funds do not report long-term amounts related to pensions.	
Deferred outflows of pensions resources	176,353
Deferred inflows of pension resources	(83,258)
Some receivables are not available soon enough to pay for the current period's expenditures, and therefore are unavailable in the funds.	
Taxes receivable	10,363
Special assessments receivable	283,207
Governmental funds do not report a liability for accrued interest until due and payable.	(94,480)
Total Net Position - Governmental Activities	<u><u>\$ 3,889,931</u></u>

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

City of Cologne, Minnesota  
Statement of Revenues, Expenditures  
and Changes in Fund Balances  
Governmental Funds  
For the Year Ended December 31, 2022

	101		Nonmajor	Total
	General	Debt Service	TIF 2-1	Governmental Funds
Revenues				
Taxes	\$ 814,912	\$ 795,111	\$ 10,765	\$ 1,620,788
Licenses and permits	141,581	-	-	141,581
Intergovernmental	490,084	-	-	490,084
Charges for services	300,391	-	-	300,391
Fines and forfeitures	2,774	-	-	2,774
Special assessments	-	47,252	-	47,252
Interest on investments	34,738	-	-	34,738
Miscellaneous	137,017	-	-	137,017
Total Revenues	<u>1,921,497</u>	<u>842,363</u>	<u>10,765</u>	<u>2,774,625</u>
Expenditures				
Current				
General government	563,748	-	-	563,748
Public safety	384,694	-	-	384,694
Public works	289,948	-	-	289,948
Culture and recreation	263,315	-	-	263,315
Economic development	103,304	-	-	103,304
Capital outlay				
Public safety	61,335	-	-	61,335
Public works	113,939	-	-	113,939
Culture and recreation	55,642	-	-	55,642
Economic development	-	-	10,226	10,226
Debt service				
Principal	-	504,000	-	504,000
Interest and other charges	-	218,399	-	218,399
Total Expenditures	<u>1,835,925</u>	<u>722,399</u>	<u>10,226</u>	<u>2,568,550</u>
Net Change in Fund Balances	85,572	119,964	539	206,075
Fund Balances, January 1	<u>2,339,505</u>	<u>622,301</u>	<u>1,253</u>	<u>2,963,059</u>
Fund Balances, December 31	<u>\$ 2,425,077</u>	<u>\$ 742,265</u>	<u>\$ 1,792</u>	<u>\$ 3,169,134</u>

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

City of Cologne, Minnesota  
Reconciliation of the Statement of Revenues, Expenditures  
and Changes in Fund Balances  
to the Statement of Activities  
Governmental Funds  
For the Year Ended December 31, 2022

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

Total Net Change in Fund Balances - Governmental Funds	\$ 206,075
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense.	
Capital outlays	224,333
Depreciation expense	(499,617)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.	
Principal payments	504,000
Current year amortization of bond premium	15,090
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental fund because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however interest expense is recognized as the interest accrues, regardless of when it is due.	6,032
Long-term pension activity is not reported in governmental funds.	
Pension expense	69,868
Pension revenue	1,180
Certain revenues are recognized as soon as it is earned. Under the modified accrual basis of accounting certain revenues cannot be recognized until they are available to liquidate liabilities of the current period.	
Special assessments	(34,221)
Property taxes	4,683
Other	(14,119)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	
Compensated absences	(4,436)
Change in Net Position - Governmental Activities	<u>\$ 478,868</u>

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

City of Cologne, Minnesota  
Statement of Revenues, Expenditures and Changes in Fund Balances -  
Budget and Actual  
General Fund  
For the Year Ended December 31, 2022

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	\$ 820,201	\$ 820,201	\$ 814,912	\$ (5,289)
Licenses and permits	94,075	94,075	141,581	47,506
Intergovernmental	149,428	149,428	490,084	340,656
Charges for services	273,000	273,000	300,391	27,391
Fines and forfeitures	3,000	3,000	2,774	(226)
Special assessments	3,000	3,000	-	(3,000)
Interest on investments	20,000	20,000	34,738	14,738
Miscellaneous	40,900	40,900	137,017	96,117
Total Revenues	<u>1,403,604</u>	<u>1,403,604</u>	<u>1,921,497</u>	<u>517,893</u>
Expenditures				
Current				
General government	461,259	461,259	563,748	(102,489)
Public safety	331,837	331,837	384,694	(52,857)
Public works	311,574	311,574	289,948	21,626
Culture and recreation	220,934	220,934	263,315	(42,381)
Economic development	5,000	5,000	103,304	(98,304)
Capital outlay				
General government	12,500	12,500	-	12,500
Public safety	14,000	14,000	61,335	(47,335)
Public works	16,000	16,000	113,939	(97,939)
Culture and recreation	30,500	30,500	55,642	(25,142)
Total Expenditures	<u>1,403,604</u>	<u>1,403,604</u>	<u>1,835,925</u>	<u>(432,321)</u>
Net Change in Fund Balances	-	-	85,572	85,572
Fund Balances, January 1	<u>2,339,505</u>	<u>2,339,505</u>	<u>2,339,505</u>	<u>-</u>
Fund Balances, December 31	<u>\$ 2,339,505</u>	<u>\$ 2,339,505</u>	<u>\$ 2,425,077</u>	<u>\$ 85,572</u>

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

City of Cologne, Minnesota  
Statement of Net Position  
Proprietary Funds  
December 31, 2022

	Business-type Activities - Enterprise Funds			Totals
	601 Water	602 Sewer	Nonmajor 603 Stormwater	
Assets				
Current Assets				
Cash and temporary investments	\$ 185,765	\$ 711,731	\$ 105,715	\$ 1,003,211
Receivables				
Accounts	43,320	37,788	2,735	83,843
Special assessments	12,989	-	-	12,989
Total Current Assets	<u>242,074</u>	<u>749,519</u>	<u>108,450</u>	<u>1,100,043</u>
Noncurrent Assets				
Special assessments	<u>254,816</u>	<u>-</u>	<u>-</u>	<u>254,816</u>
Capital assets				
Buildings	368,980	1,486,935	35,252	1,891,167
Machinery and equipment	707,708	388,932	-	1,096,640
Infrastructure	11,754,053	1,718,295	1,043,855	14,516,203
Less accumulated depreciation	<u>(2,681,038)</u>	<u>(2,290,416)</u>	<u>(13,219)</u>	<u>(4,984,673)</u>
Net Capital Assets	<u>10,149,703</u>	<u>1,303,746</u>	<u>1,065,888</u>	<u>12,519,337</u>
Total Noncurrent Assets	<u>10,404,519</u>	<u>1,303,746</u>	<u>1,065,888</u>	<u>12,774,153</u>
Total Assets	<u>10,646,593</u>	<u>2,053,265</u>	<u>1,174,338</u>	<u>13,874,196</u>
Deferred Outflows of Resources				
Deferred pension resources	<u>22,105</u>	<u>22,105</u>	<u>-</u>	<u>44,210</u>
Liabilities				
Current Liabilities				
Accounts payable	3,101	25,790	310	29,201
Accrued salaries payable	1,785	2,244	-	4,029
Unearned revenue	-	163,115	-	163,115
Accrued interest payable	44,291	2,109	9,798	56,198
Compensated absences payable - current	19,914	19,914	-	39,828
Bonds payable - current	502,730	8,019	37,251	548,000
Total Current Liabilities	<u>571,821</u>	<u>221,191</u>	<u>47,359</u>	<u>840,371</u>
Noncurrent Liabilities				
Net pension liability	56,887	56,887	-	113,774
Bonds payable	8,371,047	201,362	935,434	9,507,843
Total Noncurrent Liabilities	<u>8,427,934</u>	<u>258,249</u>	<u>935,434</u>	<u>9,621,617</u>
Total Liabilities	<u>8,999,755</u>	<u>479,440</u>	<u>982,793</u>	<u>10,461,988</u>
Deferred Inflows of Resources				
Deferred pension resources	<u>2,274</u>	<u>2,274</u>	<u>-</u>	<u>4,548</u>
Net Position				
Net investment in capital assets	1,275,926	1,094,365	93,203	2,463,494
Unrestricted	<u>390,743</u>	<u>499,291</u>	<u>98,342</u>	<u>988,376</u>
Total Net Position	<u>\$ 1,666,669</u>	<u>\$ 1,593,656</u>	<u>\$ 191,545</u>	<u>\$ 3,451,870</u>

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

City of Cologne, Minnesota  
Statement of Revenues, Expenses and Changes in Net Position  
Proprietary Funds  
For the Year Ended December 31, 2022

	Business-type Activities - Enterprise Funds			
	<b>601</b>	<b>602</b>	<b>Nonmajor</b>	
	<b>Water</b>	<b>Sewer</b>	<b>603</b>	<b>Totals</b>
			<b>Stormwater</b>	
Operating Revenues				
Charges for services	\$ 540,067	\$ 359,605	\$ 32,583	\$ 932,255
Operating Expenses				
Personal services	123,234	123,547	-	246,781
Supplies	17,519	72,958	-	90,477
Professional services	50,673	112,713	212	163,598
Insurance	11,179	-	-	11,179
Utilities	40,161	78,565	-	118,726
Repairs and maintenance	183	68,870	3,838	72,891
Depreciation	287,556	93,310	881	381,747
Total Operating Expenses	530,505	549,963	4,931	1,085,399
Operating Income (Loss)	9,562	(190,358)	27,652	(153,144)
Nonoperating Revenues (Expenses)				
Miscellaneous	354	354	-	708
Interest and other expense	(114,201)	(4,187)	(19,451)	(137,839)
Total Nonoperating Revenues (Expenses)	(113,847)	(3,833)	(19,451)	(137,131)
Income (Loss) Before Contributions	(104,285)	(194,191)	8,201	(290,275)
Transfers and Contributions				
Transfers in	-	-	25,437	25,437
Capital contributions - connection fees	140,000	113,750	-	253,750
Capital contributions - other	8,366	33,265	-	41,631
Transfers out	-	(25,437)	-	(25,437)
Total Transfers and Contributions	148,366	121,578	25,437	295,381
Change in Net Position	44,081	(72,613)	33,638	5,106
Net Position, January 1	1,622,588	1,666,269	157,907	3,446,764
Net Position, December 31	\$ 1,666,669	\$ 1,593,656	\$ 191,545	\$ 3,451,870

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



City of Cologne, Minnesota  
Statement of Cash Flows  
Proprietary Funds  
For the Year Ended December 31, 2022

	Business-type Activities - Enterprise Funds			
	601 Water	602 Sewer	Nonmajor 603 Stormwater	Totals
Cash Flows from Operating Activities				
Receipts from customers and users	\$ 531,492	\$ 351,251	\$ 32,522	\$ 915,265
Payments to suppliers	(122,458)	(308,935)	(4,741)	(436,134)
Payments to employees	(113,581)	(113,894)	-	(227,475)
Net Cash Provided by Operating Activities	295,453	(71,578)	27,781	251,656
Cash Flows from Noncapital Financing Activities				
Transfers from other funds	-	-	25,437	25,437
Grants received	-	196,380	-	196,380
Transfers to other funds	-	(25,437)	-	(25,437)
Net Cash Provided (Used) by Noncapital Financing Activities	-	170,943	25,437	196,380
Cash Flows from Capital Financing Activities				
Connection fees received	140,000	113,750	-	253,750
Special assessments received	43,201	-	-	43,201
Acquisition of capital assets	(42,533)	(8,102)	(23,850)	(74,485)
Interest paid and other on bonds	(122,361)	(4,843)	(22,495)	(149,699)
Principal paid on bonds	(454,730)	(8,019)	(37,251)	(500,000)
Net Cash (Provided) Used by Capital Financing Activities	(436,423)	92,786	(83,596)	(427,233)
Net Increase (Decrease) in Cash and Cash Equivalents	(140,970)	192,151	(30,378)	20,803
Cash and Cash Equivalents, January 1	326,735	519,580	136,093	982,408
Cash and Cash Equivalents, December 31	\$ 185,765	\$ 711,731	\$ 105,715	\$ 1,003,211
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities				
Operating income (loss)	\$ 9,562	\$ (190,358)	\$ 27,652	\$ (153,144)
Adjustments to reconcile operating income to net cash provided by operating activities				
Depreciation	287,556	93,310	881	381,747
Other income related to operations	354	354	-	708
(Increase) decrease in assets and deferred outflows of resources				
Accounts receivable	(8,929)	(8,708)	(61)	(17,698)
Pension resources	11,318	11,318	-	22,636
Increase (decrease) in liabilities and deferred inflows of resources				
Accounts payable	(2,743)	24,171	(691)	20,737
Accrued salaries payable	1,095	1,095	-	2,190
Net pension liability	33,268	33,268	-	66,536
Compensated absences payable	3,847	3,847	-	7,694
Pension resources	(39,875)	(39,875)	-	(79,750)
Net Cash Provided (Used) by Operating Activities	\$ 295,453	\$ (71,578)	\$ 27,781	\$ 251,656
Noncash Capital Financing and Investing Activities				
Amortization of bond premium	\$ 5,379	\$ 545	\$ 2,532	\$ 8,456

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

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## Note 1: Summary of Significant Accounting Policies

### A. Reporting Entity

The City of Cologne, Minnesota (the City) is a municipal corporation governed by a mayor and a four member council elected by eligible voters of the City. The financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The City has considered all potential units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the primary government to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the primary government. Blended component units, although legally separate entities are, in substance, part of the City's operations and so data from these units are combined with data of the City. Based on this criteria, there are no organizations considered to be component units of the City.

### B. Government-wide and Fund Financial Statements

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

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

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

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

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

City of Cologne, Minnesota  
Notes to the Financial Statements  
December 31, 2022

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

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

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

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, grants, entitlement and donations. On an accrual basis, revenue from property taxes is recognized in the year for which the tax is levied. Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

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

The City reports the following major governmental funds:

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

The *Debt Service fund* is used for the servicing of general long-term debt not being financed by proprietary funds.

The City reports the following major proprietary funds:

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

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

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

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

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

#### ***Deposits and Investments***

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

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

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

1. Direct obligations or obligations guaranteed by the United States or its agencies.
2. Shares of investment companies registered under the Federal Investment Company Act of 1940 and received the highest credit rating, rated in one of the two highest rating categories by a statistical rating agency, and have a final maturity of thirteen months or less.
3. General obligations of a state or local government with taxing powers rated "A" or better; revenue obligations rated "AA" or better.
4. General obligations of the Minnesota Housing Finance Agency rated "A" or better.
5. Obligation of a school district with an original maturity not exceeding 13 months and (i) rated in the highest category by a national bond rating service or (ii) enrolled in the credit enhancement program pursuant to statute section 126C.55.
6. Bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System.
7. Commercial paper issued by United States banks corporations or their Canadian subsidiaries, of highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less.
8. Repurchase or reverse repurchase agreements and securities lending agreements with financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.
9. Guaranteed Investment Contracts (GIC's) issued or guaranteed by a United States commercial bank, a domestic branch of a foreign bank, a United States insurance company, or its Canadian subsidiary, whose similar debt obligations were rated in one of the top two rating categories by a nationally recognized rating agency.

#### ***Property Taxes***

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

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

City of Cologne, Minnesota  
Notes to the Financial Statements  
December 31, 2022

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

***Accounts Receivable***

Accounts receivable include amounts billed for services provided before year end. Unbilled utility enterprise fund receivables are also included for services provided in 2022. The City annually certifies delinquent water and sewer accounts to the County for collection in the following year. Therefore, there has been no allowance for doubtful accounts established for utility receivables.

***Special Assessments***

Special assessments represent the financing for public improvements paid for by benefiting property owners. These assessments are recorded as receivables upon certification to the County. Special assessments are recognized as revenue when they are received in cash or within 60 days after year end. All governmental special assessments receivable are offset by a deferred inflow of resources in the fund financial statements.

***Capital Assets***

Capital assets, which include property, plant, equipment and infrastructure assets, (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

In the case of initial capitalization of general infrastructure assets (i.e., those reported by governmental activities) the City chose to include items dating back to June 30, 1980. The City was able to estimate the historical cost for the initial reporting of these assets through back trending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). As the City constructs or acquires capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate.

Capital assets of the City are depreciated using the straight-line method over the following estimated useful lives:

Assets	Useful Lives in Years
Land improvements	20 - 40
Buildings and Improvements	20 - 40
Infrastructure	20 - 40
Machinery and Equipment	5 - 20

***Deferred Outflows of Resources***

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

City of Cologne, Minnesota  
Notes to the Financial Statements  
December 31, 2022

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

***Compensated Absences***

It is the City's policy to permit employees to accumulate a limited amount of earned but unused vacation and sick pay benefits. The City allows sick leave to accrue to a maximum of 480 hours for full-time employees. Any sick leave earned in excess of 480 hours will be converted to vacation leave at a rate of 20% for any excess sick leave at year-end. Employees retiring in good standing from the City will receive payment for all of their accumulated vacation time, paid at the rate in effect on the date of retirement. Sick leave is not paid out at retirement. The General fund is typically used to liquidate the ending compensated balances.

***Long-term Obligations***

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. The recognition of bond premiums and discounts are amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount.

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.

***Pensions***

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

For purposes of measuring the net pension liability (asset), deferred outflows of resources related to pensions, and pension expense, information about the fiduciary net position of the defined benefit plan administered by PERA through the Statewide Volunteer Firefighter Retirement Plan (SVF) for the Cologne Firefighter's Relief Association and additions to and deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the plan. Investments are reported at fair value. The General fund is typically used to liquidate the governmental net pension liability.

The total pension expense for the City is as follows:

	GERP	Fire Relief Association	Total
Pension Expense	\$ 62,862	\$ (62,780)	\$ 82

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

### ***Deferred Inflows of Resources***

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 a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has one type of item, which arises only under a modified accrual basis of accounting that qualifies as needing to be reported in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources: property taxes and special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

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

### ***Fund Balance***

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

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

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

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

*Assigned* - Amounts constrained for specific purposes that are internally imposed. Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as committed. Assigned amounts represent intended uses established by the City Council itself or by the Finance Director to which the governing body delegates the authority. The City Council delegates the authority to assign amounts for specific purposes to the City Clerk.

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

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

The City has a formal fund balance policy to maintain 50% of the current operating budget.



City of Cologne, Minnesota  
Notes to the Financial Statements  
December 31, 2022

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

**Net Position**

In the government-wide financial statements, net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net position is displayed in three components:

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

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

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

**A. Budgetary Information**

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General fund. All annual appropriations lapse at fiscal year-end. The City does not use encumbrance accounting.

The City Council adopts budgets prior to January 1, the appropriated budget is prepared by fund, function and department. The City's department heads, with the approval of the City Administrator, may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the City Council. The legal level of budgetary control is at the department level. The City did not amended the budget during the year.

**B. Excess of Expenditures Over Appropriations**

For the year ended December 31, 2022 expenditures exceeded appropriations in the following funds:

Fund	Budget	Actual	Excess of Expenditures Over Appropriations
General Fund	\$ 1,403,604	\$ 1,835,925	\$ 432,321

The excess expenditures were funded by revenues in excess of expectations.

City of Cologne, Minnesota  
Notes to the Financial Statements  
December 31, 2022

**Note 3: Detailed Notes on All Funds**

**A. Deposits and Investments**

***Deposits***

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

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

Authorized collateral in lieu of a corporate surety bond includes:

- United States government Treasury bills, Treasury notes, Treasury bonds;
- Issues of United States government agencies and instrumentalities as quoted by a recognized industry quotation service available to the government entity;
- General obligation securities of any state or local government with taxing powers which is rated "A" or better by a national bond rating service, or revenue obligation securities of any state or local government with taxing powers which is rated "AA" or better by a national bond rating service;
- General obligation securities of a local government with taxing powers may be pledged as collateral against funds deposited by that same local government entity;
- Irrevocable standby letters of credit issued by Federal Home Loan Banks to a municipality accompanied by written evidence that the bank's public debt is rated "AA" or better by Moody's Investors Service, Inc., or Standard & Poor's Corporation; and
- Time deposits that are fully insured by any federal agency.

At year end, the City's carrying amount of deposits was \$3,233,149 and the bank balance was \$3,411,179. The bank balance was partially covered by federal depository insurance while the remaining balance was covered by collateral held by the City's agent in the City's name.

City of Cologne, Minnesota  
Notes to the Financial Statements  
December 31, 2022

**Note 3: Detailed Notes on All Funds (Continued)**

**Investments**

The City's investment policy incorporates Minnesota statutes as described above which reduces the City's exposure to credit risk, custodial credit risk, concentration of credit risk, and interest rate risks. Specific risk information for the City is as noted in the City investment policy is as follows:

- *Credit Risk.* Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Ratings are provided by various credit rating agencies and where applicable, indicate associated credit risk. Minnesota statutes and the City's investment policy limit the City's investments to the list above. To ensure safety, it is the policy of the City that when considering an investment, all depositories under consideration be cross-checked against existing investments to make certain that funds in excess of insurance limits are not made in the same institution unless collateralized as outlined below. Furthermore, the City Council will approve all financial institutions, brokers, and advisers with which the City will do business.
- *Custodial Credit Risk.* Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The City will minimize deposit custodial credit risk, by obtaining collateral or bond for all uninsured amounts on deposit, and by obtaining necessary documentation to show compliance with state law and a perfected security interest under federal law.
- *Concentration of Credit Risk.* Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The investment portfolio must be diversified by individual financial institution, government agency, or by corporation (in the case of commercial paper) to reduce the exposure to risk of loss.
- *Interest Rate Risk.* Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City will minimize Interest Rate Risk by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity.

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

As of December 31, 2022, the City had the following investments that are insured or registered, or securities held by the City's agent in the City's name:

Types of Investments	Credit Quality/ Rating (1)	Segmented Time Distribution (2)	Amount
Pooled Investments at Amortized Costs			
4M	N/A	less than 1 year	<u>\$ 788,299</u>

City of Cologne, Minnesota  
Notes to the Financial Statements  
December 31, 2022

**Note 3: Detailed Notes on All Funds (Continued)**

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

Carrying Amount of Deposits	\$ 3,233,149
Investments	788,299
Cash on Hand	<u>200</u>
Total	<u><u>\$ 4,021,648</u></u>

**B. Capital Assets**

Capital asset activity for the year ended December 31, 2022 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental Activities</b>				
Capital Assets not being Depreciated				
Land	\$ 254,300	\$ -	\$ -	\$ 254,300
Construction in progress	<u>3,525,920</u>	<u>-</u>	<u>(3,525,920)</u>	<u>-</u>
Total Capital Assets not being Depreciated	<u>3,780,220</u>	<u>-</u>	<u>(3,525,920)</u>	<u>254,300</u>
Capital Assets, being Depreciated				
Buildings	3,453,963	-	-	3,453,963
Infrastructure	6,180,792	3,677,565	-	9,858,357
Machinery and equipment	<u>3,806,529</u>	<u>72,688</u>	<u>-</u>	<u>3,879,217</u>
Total Capital Assets being Depreciated	<u>13,441,284</u>	<u>3,750,253</u>	<u>-</u>	<u>17,191,537</u>
Less Accumulated Depreciation for				
Buildings	(1,685,459)	(83,112)	-	(1,768,571)
Infrastructure	(3,558,567)	(250,696)	-	(3,809,263)
Machinery and equipment	<u>(2,597,954)</u>	<u>(165,809)</u>	<u>-</u>	<u>(2,763,763)</u>
Total Accumulated Depreciation	<u>(7,841,980)</u>	<u>(499,617)</u>	<u>-</u>	<u>(8,341,597)</u>
Total Capital Assets being Depreciated, Net	<u>5,599,304</u>	<u>3,250,636</u>	<u>-</u>	<u>8,849,940</u>
Governmental Activities Capital Assets, Net	<u><u>\$ 9,379,524</u></u>	<u><u>\$ 3,250,636</u></u>	<u><u>\$ (3,525,920)</u></u>	<u><u>\$ 9,104,240</u></u>

City of Cologne, Minnesota  
Notes to the Financial Statements  
December 31, 2022

**Note 3: Detailed Notes on All Funds (Continued)**

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Business-type Activities</b>				
Capital Assets not being Depreciated				
Construction in progress	\$ 2,549,229	\$ -	\$ (2,549,229)	\$ -
Capital Assets being Depreciated				
Buildings	1,855,915	-	-	1,855,915
Infrastructure	11,927,742	2,623,714	-	14,551,456
Machinery and equipment	1,096,639	-	-	1,096,639
Total Capital Assets being Depreciated	14,880,296	2,623,714	-	17,504,010
Less Accumulated Depreciation for				
Buildings	(1,598,754)	(61,327)	-	(1,660,081)
Infrastructure	(2,121,920)	(298,170)	-	(2,420,090)
Machinery and equipment	(882,252)	(22,250)	-	(904,502)
Total Accumulated Depreciation	(4,602,926)	(381,747)	-	(4,984,673)
Total Capital Assets being Depreciated, Net	10,277,370	2,241,967	-	12,519,337
Business-type Activities Capital Assets, Net	<u>\$ 12,826,599</u>	<u>\$ 2,241,967</u>	<u>\$ (2,549,229)</u>	<u>\$ 12,519,337</u>

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

<b>Governmental Activities</b>	
General government	\$ 74,158
Public safety	89,362
Public works	205,400
Culture and recreation	130,697
Total Depreciation Expense - Governmental Activities	<u>\$ 499,617</u>
<b>Business-type Activities</b>	
Water	\$ 287,556
Sewer	93,310
Stormwater	881
Total Depreciation Expense - Business-type Activities	<u>\$ 381,747</u>

City of Cologne, Minnesota  
Notes to the Financial Statements  
December 31, 2022

**Note 3: Detailed Notes on All Funds (Continued)**

**C. Long-term Debt**

General Obligation Bonds

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

The following bonds will be repaid from future tax levies.

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
G.O. Refunding Bonds, Series 2013A	\$ 8,020,000	2.00 - 3.25 %	06/19/13	02/01/33	\$ 4,570,000
G.O. Equipment Certificates Bonds, Series 2019A	693,000	2.60 - 2.75	02/01/22	02/01/28	484,000
G.O. Bonds Series 2020A	2,955,000	2.00 - 3.00	05/18/20	02/01/41	2,840,000
G.O. Bonds Series 2021A	385,000	1.40	08/04/21	08/04/21	385,000
Total General Obligation Bonds					<u>8,279,000</u>

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

Year Ending December 31,	Governmental Activities		
	Principal	Interest	Total
2023	\$ 555,000	\$ 205,589	\$ 760,589
2024	572,000	192,419	764,419
2025	770,000	175,733	945,733
2026	782,000	155,953	937,953
2027	804,000	135,096	939,096
2028 - 2032	3,001,000	377,439	3,378,439
2033 - 2037	1,095,000	115,394	1,210,394
2038 - 2041	700,000	28,298	728,298
Total	<u>\$ 8,279,000</u>	<u>\$ 1,385,921</u>	<u>\$ 9,664,921</u>

City of Cologne, Minnesota  
Notes to the Financial Statements  
December 31, 2022

**Note 3: Detailed Notes on All Funds (Continued)**

General Obligation Revenue Bonds

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

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
G.O. Refunding Bonds, Series 2013A	\$ 8,020,000	2.00 - 3.25 %	06/19/13	02/01/29	\$ 925,000
G.O. PFA Bonds, Series 2014A	839,216	1.00	09/02/14	08/20/34	529,000
G.O. PFA Bonds, Series 2017A	7,715,623	1.00	11/23/16	08/20/46	5,831,000
G.O. Bonds Series 2020A	2,330,000	2.00 - 3.00	05/18/20	02/01/41	2,240,000
G.O. Bonds Series 2021A	395,000	1.40	08/04/21	08/04/21	395,000
Total G.O. Revenue Bonds					<u>\$ 9,920,000</u>

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

Year Ending December 31,	Business-type Activities		
	Principal	Interest	Total
2023	\$ 548,000	\$ 141,373	\$ 689,373
2024	561,000	131,986	692,986
2025	568,000	121,973	689,973
2026	581,000	111,532	692,532
2027	593,000	100,688	693,688
2028 - 2032	2,224,002	386,636	2,610,638
2033 - 2037	1,940,000	242,690	2,182,690
2038 - 2042	1,834,998	114,690	1,949,688
2043 - 2046	1,070,000	26,850	1,096,850
Total	<u>\$ 9,920,000</u>	<u>\$ 1,378,418</u>	<u>\$ 11,298,418</u>

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

	Water	Sewer	Stormwater
Operating Revenues	\$ 540,067	\$ 359,605	\$ 32,583
Principal and Interest	577,091	12,862	59,746
Percentage of Revenues	94 %	2,796 %	55 %

City of Cologne, Minnesota  
Notes to the Financial Statements  
December 31, 2022

**Note 3: Detailed Notes on All Funds (Continued)**

Changes in Long-term Liabilities

Noncurrent liability activity for the year ended December 31, 2022 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
<b>Governmental Activities</b>					
General obligation bonds	\$ 8,783,000	\$ -	\$ (504,000)	\$ 8,279,000	\$ 555,000
Bond Premium	235,470	-	(15,090)	220,380	-
Compensated Absences Payable	47,691	24,134	(19,698)	52,127	52,127
Governmental Activity Long-term Liabilities	<u>\$ 9,066,161</u>	<u>\$ 24,134</u>	<u>\$ (538,788)</u>	<u>\$ 8,551,507</u>	<u>\$ 607,127</u>
<b>Business-type Activities</b>					
General Obligation Revenue Bonds	\$ 10,420,000	\$ -	\$ (500,000)	\$ 9,920,000	\$ 548,000
Bond Premium	144,299	-	(8,456)	135,843	-
Compensated Absences Payable	32,134	18,440	(10,746)	39,828	39,828
Business-type Activity Long-term Liabilities	<u>\$ 10,596,433</u>	<u>\$ 18,440</u>	<u>\$ (519,202)</u>	<u>\$ 10,095,671</u>	<u>\$ 587,828</u>

Conduit Debt

In 2014 the City of Cologne issued \$13,960,000 of conduit bonds to finance the acquisition of the Cologne Academy charter school facility and the construction and equipping the facility. The loan is secured by a mortgage on the related land, building, and building contents, as well as the assignment of future lease revenue. The loan represents the proceeds of two lease revenue bond issued. The first issue is \$13,630,000 of Charter School Lease Revenue Bonds, Series 2014A, which bear interest ranging from 4% to 5% and have a final maturity of July 1, 2045. The second issue is the \$330,000 of Taxable Charter School Lease Revenue Bonds, Series 2014B, which bear an interest rate of 5% and have a final maturity of July 1, 2018. Through the terms of the agreement, the Building Company assumes all responsibility for the bonds issued by the City of Cologne and must make loan payments sufficient to meet the scheduled semi-annual debt service payments to retire the bonds. As of December 31, 2022 the total bonds outstanding were \$12,810,000.

**D. Transfers**

The City made a transfer during the year from the Sewer fund to the Stormwater fund of \$25,437 to reimburse the fund for engineering expenses.



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

### **A. Plan Description**

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

#### General Employees Retirement Plan

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

### **B. Benefits Provided**

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

#### General Employee Plan Benefits

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

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

### **C. Contributions**

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

#### General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in fiscal year 2022 and the City was required to contribute 7.50 percent for Coordinated Plan members. The City's contributions to the General Employees Fund for the years ending December 31, 2022, 2021 and 2020 were \$32,679, \$32,122 and \$28,772, respectively. The City's contributions were equal to the required contributions for each year as set by state statute.

City of Cologne, Minnesota  
Notes to the Financial Statements  
December 31, 2022

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

**D. Pension Costs**

General Employees Fund Pension Costs

At December 31, 2022, the City reported a liability of \$427,682 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 \$12,632. 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 was 0.0054 percent which was a decrease of 0.0004 percent from its proportion measured as of June 30, 2021.

City's Proportionate Share of the Net Pension Liability	\$ 427,682
State of Minnesota's Proportionate Share of the Net Pension Liability Associated with the City	<u>12,632</u>
Total	<u><u>\$ 440,314</u></u>

For the year ended December 31, 2022, the City recognized pension expense of \$60,974 for its proportionate share of the General Employees Plan's pension expense. In addition, the City recognized an additional \$1,888 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 the 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	\$ 3,572	\$ 4,877
Changes in Actuarial Assumptions	103,745	1,739
Net Difference between Projected and Actual Earnings on Plan Investments	-	4,731
Changes in Proportion	13,751	8,540
Contributions to PERA Subsequent to the Measurement Date	<u>16,354</u>	<u>-</u>
Total	<u><u>\$ 137,422</u></u>	<u><u>\$ 19,887</u></u>

City of Cologne, Minnesota  
Notes to the Financial Statements  
December 31, 2022

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

The \$16,354 reported as deferred outflows of resources related to pensions resulting from the City's contributions to subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2023. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

2023	\$ 46,103
2024	34,064
2025	(17,665)
2026	38,679

**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 Stocks	33.5 %	5.10 %
Private Markets	25.0	5.90
Fixed Income	25.0	0.75
International Equity	16.5	5.30
Total	<u>100.00 %</u>	

**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 6.5 percent. This assumption is based on a review of inflation and investments return assumptions from a number of national investment consulting firms. The review provided a range of return investment return rates deemed to be reasonable by the actuary. An investment return of 6.5 percent was deemed to be within that range of reasonableness for financial reporting purposes.

Inflation is assumed to be 2.25 percent for the General Employees Plan. Benefit increases after retirement are assumed to be 1.25 percent for the General Employees Plan. Salary growth assumptions in the General Employees Plan range in annual increments from 10.25 percent after one year of service to 3.0 percent after 27 years of service. 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.

City of Cologne, Minnesota  
Notes to the Financial Statements  
December 31, 2022

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

Actuarial assumptions used in the June 30, 2022 valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2019. The assumption changes were adopted by the Board and become effective with the July 1, 2020 actuarial valuation.

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

**H. Pension Liability Sensitivity**

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

	<u>1 Percent Decrease (5.50%)</u>	<u>Current (6.50%)</u>	<u>1 Percent Increase (7.50%)</u>
General Employees Fund	\$ 675,546	\$ 427,682	\$ 224,395

**I. Pension Plan Fiduciary Net Position**

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

City of Cologne, Minnesota  
Notes to the Financial Statements  
December 31, 2022

**Note 5: Defined Benefit Pension Plan - Fire Relief Association**

**A. Plan Description**

The Cologne Fire Department (the Department) participates in the Statewide Volunteer Firefighter Retirement Plan (Volunteer Firefighter Plan accounted for in the Volunteer Firefighter Fund), an agent multiple-employer lump-sum [or monthly] defined benefit pension plan administered by the Public Employees Retirement Association of Minnesota (PERA). The Volunteer Firefighter Plan covers volunteer firefighters of municipal fire departments or independent nonprofit firefighting corporations that have elected to join the plan. As of December 31, 2022, the plan covered 32 active firefighters and 4 vested terminated firefighters.

**B. Benefits Provided**

The Volunteer Firefighter Plan provides retirement, death, and supplemental benefits to covered firefighters and survivors. Benefits are paid based on the number of years of service multiplied by a benefit level approved by the City. Members are eligible for a lump-sum retirement benefit at 50 years of age with five years of service. Plan provisions include a pro-rated vesting schedule that increases from 5 years at 40 percent through 20 years at 100 percent.

**C. Contribution**

The Volunteer Firefighter Plan of the City are members of the Cologne Fire Fighter's Relief Association. 50% of retirement benefits are payable to members who have reached 10 years of service. An additional 5% of benefits are payable each year until the 20<sup>th</sup> year of service, at which point full retirement benefits are payable. Disability benefits and widow and children's survivor benefits are also payable to members or their beneficiaries based upon requirements set forth in the bylaws. These benefit provisions and all other requirements are consistent with enabling state statutes.

**D. Pension Costs**

At December 31, 2022, the City reported a net pension asset of \$189,787 for the Volunteer Firefighter Fund. The net pension asset was measured as of December 31, 2022. The total pension liability used to calculate the net pension asset in accordance with GASB 68 was determined by PERA applying an actuarial formula to specific census data certified by the Department. The following table presents the changes in net pension liability (asset) during the year:

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a-b)
Beginning Balance January 1, 2021	\$ 695,211	\$ 823,775	\$ (128,564)
Changes for the Year			
Service cost	22,353	-	22,353
Interest on pension liability (asset)	37,672	-	37,672
Assumption changes	(3,729)	-	(3,729)
Contributions (Municipal)	-	29,271	(29,271)
Contributions (State)	-	24,979	(24,979)
Projected investment earnings	-	44,608	(44,608)
Asset (gain)/loss	(5,064)	16,047	(21,111)
Administrative costs	-	(2,450)	2,450
Total Net Changes	51,232	112,455	(61,223)
Ending Balance December 31, 2021	\$ 746,443	\$ 936,230	\$ (189,787)

City of Cologne, Minnesota  
Notes to the Financial Statements  
December 31, 2022

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

For the year ended December 31, 2022, the Fire Department recognized negative pension expense of \$62,780.

December 31, 2022, the City reported deferred inflows and outflows of resources, its contributions subsequent to the measurement date, related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net Difference Between Projected and Actual Earnings on Plan Investments	\$ -	\$ 64,605
Assumption Changes	-	3,314
Contributions Subsequent to the Measurement Date	<u>83,141</u>	<u>-</u>
Total	<u>\$ 83,141</u>	<u>\$ 67,919</u>

Deferred outflows of resources totaling \$83,141 related to pensions resulting from the City's contributions to the plan subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2023. Other amounts reported as deferred outflows of resources related to the plan will be recognized in pension expense as follows:

2023	\$ (24,647)
2024	(24,647)
2025	(10,537)
2026	(4,185)
2027	(978)
Thereafter	(2,925)

**E. Actuarial Assumptions**

The total pension liability (asset) as of December 31, 2022 was determined using the entry age normal actuarial cost method and the following actuarial assumptions:

Salary Increases	2.50% per year
Investment Rate of Return	5.50%
20 Year Municipal Bond Yield	5.50%

There were no changes in actuarial assumptions in 2022.

**F. Discount Rate**

The discount rate used to measure the total pension liability was 5.50 percent. The projection of cash flows used to determine the discount rate assumed that contributions to the Volunteer Firefighter Fund will be made as specified in statute. Based on that assumption and considering the funding ratio of the plan, the fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

City of Cologne, Minnesota  
Notes to the Financial Statements  
December 31, 2022

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

**G. Pension Liability Sensitivity**

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

	<u>1 Percent Decrease (4.50%)</u>	<u>Current (5.50%)</u>	<u>1 Percent Increase (6.50%)</u>
SVF	\$ (174,605)	\$ (189,787)	\$ (204,257)

**H. Pension Plan Fiduciary Net Position**

The Association issues a publicly available financial report. The report may be obtained by writing to the Cologne Fire Department Relief Association, 110 Louis St. W, Cologne, MN 55322.

**Note 6: Other Information**

**A. Legal Debt Margin**

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

**B. Risk Management**

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which the City carries insurance. The City obtains insurance through participation in the League of Minnesota Cities Insurance Trust (LMCIT), which is a risk sharing pool with approximately 800 other governmental units. The City pays an annual premium to LMCIT for its workers compensation and property and casualty insurance. The LMCIT is self-sustaining through member premiums and will reinsure for claims above a prescribed dollar amount for each insurance event. Settled claims have not exceeded the City's coverage in any of the past three fiscal years.

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

**C. Tax Increment Financing Districts**

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

**D. Concentrations**

The City receives a significant amount of its annual General fund revenue from the State of Minnesota from the Local Government Aid (LGA). The amount received in 2022 was \$238,856. This accounted for 9% percent of General fund revenues

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REQUIRED SUPPLEMENTARY INFORMATION

CITY OF COLOGNE  
COLOGNE, MINNESOTA

FOR THE YEAR ENDED  
DECEMBER 31, 2022

City of Cologne, Minnesota  
Required Supplementary Information  
For the Year Ended December 31, 2022

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

Fiscal Year Ending	City's Proportion of the Net Pension Liability	City's Proportionate Share of the Net Pension Liability (a)	State's Proportionate Share of the Net Pension Liability Associated with the City (b)	Total (a+b)	City's Covered Payroll (c)	City's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll (a/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
6/30/22	0.0054 %	\$ 427,682	\$ 12,632	\$ 440,314	\$ 423,756	100.9 %	76.7 %
6/30/21	0.0058	247,686	7,593	255,279	414,014	59.8	87.0
6/30/20	0.0054	323,755	9,864	333,619	364,553	88.8	79.0
6/30/19	0.0049	270,910	8,333	279,243	341,900	79.2	80.2
6/30/18	0.0050	277,380	9,162	286,542	335,860	82.6	79.5
6/30/17	0.0051	323,755	4,154	327,909	326,422	99.2	75.9
6/30/16	0.0051	414,095	5,339	419,434	260,116	159.2	68.9

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

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

Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	City's Covered Payroll (c)	Contributions as a Percentage of Covered Payroll (b/c)
12/31/22	\$ 32,679	\$ 32,679	\$ -	\$ 435,720	7.5 %
12/31/21	32,122	32,122	-	428,293	7.5
12/31/20	28,772	28,772	-	383,627	7.5
12/31/19	25,911	25,911	-	345,480	7.5
12/31/18	25,374	25,374	-	338,320	7.5
12/31/17	25,005	25,005	-	333,400	7.5
12/31/16	20,755	20,755	-	276,733	7.5

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

City of Cologne, Minnesota  
Required Supplementary Information (Continued)  
For the Year Ended December 31, 2022

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

Changes in Actuarial Assumptions

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

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

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

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

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

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

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

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

City of Cologne, Minnesota  
Required Supplementary Information (Continued)  
For the Year Ended December 31, 2022

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

Changes in Plan Provisions

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

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

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

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

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

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

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

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

City of Cologne, Minnesota  
Required Supplementary Information (Continued)  
For the Year Ended December 31, 2022

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

	2022 (Fire Relief Report Date 2021)	2021 (Fire Relief Report Date 2020)	2020 (Fire Relief Report Date 2019)
<b>Total Pension Liability</b>			
Service cost	\$ 22,353	\$ 21,808	\$ 21,276
Interest	37,672	34,678	35,070
Gain or loss	(5,064)	-	-
Changes of assumptions	(3,729)	-	-
Benefit payments, including refunds of employee contributions	-	-	(128,677)
<b>Net Change in Total Pension Liability</b>	<b>51,232</b>	<b>56,486</b>	<b>(72,331)</b>
<b>Total Pension Liability - January 1</b>	<b>695,211</b>	<b>638,725</b>	<b>711,056</b>
 <b>Total Pension Liability - December 31 (a)</b>	 <b><u>\$ 746,443</u></b>	 <b><u>\$ 695,211</u></b>	 <b><u>\$ 638,725</u></b>
 <b>Plan Fiduciary Net Position</b>			
Fire State aid	\$ 24,979	\$ 23,920	\$ 25,623
Municipal contributions	29,271	24,080	56,936
Net investment income	60,655	70,125	103,559
Benefit payments, including refunds of employee contributions	-	-	(128,677)
Administrative expense	(2,450)	(2,506)	(2,563)
<b>Net Change in Plan Fiduciary Net Position</b>	<b>112,455</b>	<b>115,619</b>	<b>54,878</b>
 <b>Plan Fiduciary Net Position - January 1</b>	 <b>823,775</b>	 <b>708,156</b>	 <b>653,278</b>
 <b>Plan Fiduciary Net Position - December 31 (b)</b>	 <b><u>\$ 936,230</u></b>	 <b><u>\$ 823,775</u></b>	 <b><u>\$ 708,156</u></b>
 <b>Fire Relief's Net Pension Liability (Asset) - December 31 (a-b)</b>	 <b><u>\$ (189,787)</u></b>	 <b><u>\$ (128,564)</u></b>	 <b><u>\$ (69,431)</u></b>
 <b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability (b/a)</b>	 <b>125.43%</b>	 <b>118.49%</b>	 <b>110.87%</b>
 <b>Covered-employee Payroll</b>	 <b>N/A</b>	 <b>N/A</b>	 <b>N/A</b>
 <b>Fire Relief's Net Pension Liability (Asset) as a Percentage of Covered-employee Payroll</b>	 <b>N/A</b>	 <b>N/A</b>	 <b>N/A</b>

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

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COMBINING AND INDIVIDUAL FUND  
FINANCIAL STATEMENTS AND SCHEDULES

CITY OF COLOGNE  
COLOGNE, MINNESOTA

FOR THE YEAR ENDED  
DECEMBER 31, 2022

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City of Cologne, Minnesota  
General Fund  
Schedule of Revenues, Expenditures and Changes in Fund Balances -  
Budget and Actual (Continued on the Following Pages)  
For the Year Ended December 31, 2022  
(With Comparative Actual Amounts for the Year Ended December 31, 2021)

	2022				2021
	Budget Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
Revenues					
Property taxes	\$ 816,701	\$ 816,701	\$ 814,912	\$ (1,789)	\$ 742,896
Franchise fees	3,500	3,500	-	(3,500)	-
Total	820,201	820,201	814,912	(5,289)	742,896
Licenses and permits	94,075	94,075	141,581	47,506	96,729
Intergovernmental					
State					
Local government aid	119,428	119,428	238,856	119,428	234,208
Small city assistance	-	-	-	-	37,098
Police and fire	24,500	24,500	30,362	5,862	28,064
PERA aid	500	500	-	(500)	-
Other	5,000	5,000	-	(5,000)	-
County	-	-	220,866	220,866	145,006
Local	-	-	-	-	16,000
Total intergovernmental	149,428	149,428	490,084	340,656	460,376
Charges for services					
General government	3,000	3,000	4,960	1,960	810
Public safety	191,000	191,000	206,925	15,925	212,004
Public works	4,000	4,000	5,560	1,560	2,378
Park and recreation	75,000	75,000	82,946	7,946	66,905
Total charges for services	273,000	273,000	300,391	27,391	282,097
Fines and forfeitures	3,000	3,000	2,774	(226)	3,819
Special assessments	3,000	3,000	-	(3,000)	-
Interest on investments	20,000	20,000	34,738	14,738	12,195
Miscellaneous					
Rents and leases	1,900	1,900	2,200	300	2,200
Refunds and reimbursements	15,000	15,000	63,887	48,887	73,922
Donations and other	23,000	23,000	61,336	38,336	29,857
Miscellaneous	1,000	1,000	9,594	8,594	30,649
Total miscellaneous	40,900	40,900	137,017	96,117	136,628
Total Revenues	1,403,604	1,403,604	1,921,497	517,893	1,734,740

City of Cologne, Minnesota  
General Fund  
Schedule of Revenues, Expenditures and Changes in Fund Balances -  
Budget and Actual (Continued)  
For the Year Ended December 31, 2022  
(With Comparative Actual Amounts for the Year Ended December 31, 2021)

	2022				2021
	Budget Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
Expenditures					
Current					
General government					
Mayor and city council					
Personal services	\$ 15,335	\$ 15,335	\$ 14,580	\$ 755	\$ 15,028
Financial services					
Personal services	217,884	217,884	236,554	(18,670)	222,909
Supplies	8,500	8,500	5,467	3,033	7,307
Other services and charges	69,900	69,900	44,162	25,738	47,367
Total financial services	296,284	296,284	286,183	10,101	277,583
Elections					
Personal services	4,190	4,190	2,701	1,489	-
Supplies	500	500	322	178	-
Other services and charges	1,000	1,000	260	740	-
Total elections	5,690	5,690	3,283	2,407	-
Legal and Accounting	17,000	17,000	86,555	(69,555)	21,817
Engineering	70,000	70,000	78,896	(8,896)	122,643
Planning and Zoning	12,500	12,500	48,437	(35,937)	8,157
City buildings					
Supplies	3,500	3,500	-	3,500	-
Other services and charges	27,950	27,950	30,707	(2,757)	28,302
Total City buildings	31,450	31,450	30,707	743	28,302
Total general government	461,259	461,259	563,748	(102,489)	487,320
Public safety					
Police					
Other services and charges	48,837	48,837	51,625	(2,788)	52,833
Fire					
Personal services	84,600	84,600	84,614	(14)	79,829
Supplies	38,800	38,800	52,822	(14,022)	43,621
Other services and charges	140,600	140,600	156,688	(16,088)	130,476
Total fire	264,000	264,000	294,124	(30,124)	253,926
Building inspection					
Other services and charges	19,000	19,000	38,945	(19,945)	15,439
Total public safety	331,837	331,837	384,694	(52,857)	322,198
Public works					
Streets and other					
Personal services	71,374	71,374	76,344	(4,970)	75,322
Supplies	19,500	19,500	37,065	(17,565)	20,233
Other services and charges	200,700	200,700	150,238	50,462	143,020
Total streets and other	291,574	291,574	263,647	27,927	238,575

City of Cologne, Minnesota  
General Fund  
Schedule of Revenues, Expenditures and Changes in Fund Balances -  
Budget and Actual (Continued)  
For the Year Ended December 31, 2022  
(With Comparative Actual Amounts for the Year Ended December 31, 2021)

	2022			2021
	Budget Amounts		Actual	Actual
	Original	Final	Amounts	Amounts
Expenditures (Continued)				
Current (continued)				
Street lighting				
Other services and charges	\$ 20,000	\$ 20,000	\$ 26,301	\$ (6,301)
				\$ 21,072
Total public works	311,574	311,574	289,948	21,626
				259,647
Expenditures (Continued)				
Current (continued)				
Culture and recreation				
Parks and recreation				
Personal services	54,182	54,182	56,116	(1,934)
Supplies	3,300	3,300	5,490	(2,190)
Other services and charges	68,400	68,400	79,576	(11,176)
Total park and recreation	125,882	125,882	141,182	(15,300)
				115,085
Community center				
Personal services	22,402	22,402	24,050	(1,648)
Supplies	7,250	7,250	2,783	4,467
Other services and charges	65,400	65,400	95,300	(29,900)
Total community center	95,052	95,052	122,133	(27,081)
				97,918
Total parks and recreation	220,934	220,934	263,315	(42,381)
				213,003
Economic development				
Community development				
Other services and charges	5,000	5,000	103,304	(98,304)
				102,972
Total current	1,330,604	1,330,604	1,605,009	(274,405)
				1,385,140
Capital outlay				
General government	12,500	12,500	-	12,500
Public safety	14,000	14,000	61,335	(47,335)
Public works	16,000	16,000	113,939	(97,939)
Culture and recreation	30,500	30,500	55,642	(25,142)
Total capital outlay	73,000	73,000	230,916	(157,916)
				1,307,218
Expenditures (Continued)				
Debt service				
Interest and other charges	-	-	-	-
				21,500
Total Expenditures	1,403,604	1,403,604	1,835,925	(432,321)
				2,713,858
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	-	-	85,572	85,572
				(979,118)
Other Financing Sources (Uses)				
Bond proceeds	-	-	-	-
				385,000
Net Change in Fund Balances	-	-	85,572	85,572
				(594,118)
Fund Balances, January 1	2,339,505	2,339,505	2,339,505	-
				2,933,623
Fund Balances, December 31	\$ 2,339,505	\$ 2,339,505	\$ 2,425,077	\$ 85,572
				\$ 2,339,505

City of Cologne, Minnesota  
Summary Financial Report  
Governmental Funds  
Revenues and Expenditures for General Operations  
For the Years Ended December 31, 2022 and 2021

	Total		Percent Increase (Decrease)
	2022	2021	
Revenues			
Taxes	\$ 1,620,788	\$ 1,512,337	7.17 %
Licenses and permits	141,581	96,729	46.37
Intergovernmental	490,084	422,987	15.86
Charges for services	300,391	282,097	6.49
Fines and forfeits	2,774	3,819	(27.36)
Special assessments	47,252	504,826	(90.64)
Interest on investments	34,738	12,195	184.85
Miscellaneous	137,017	174,017	(21.26)
Total Revenues	<u>\$ 2,774,625</u>	<u>\$ 3,009,007</u>	(7.79) %
Per Capita	<u>\$ 1,349</u>	<u>\$ 1,470</u>	(8.24) %
Expenditures			
Current			
General government	\$ 563,748	\$ 487,320	15.68 %
Public safety	384,694	322,198	19.40
Public works	289,948	259,647	11.67
Culture and recreation	263,315	213,003	23.62
Economic development	103,304	102,972	0.32
Capital outlay			
General government	-	22,127	100.00
Public safety	61,335	29,104	110.74
Public works	113,939	1,234,412	(90.77)
Culture and recreation	55,642	21,575	157.90
Economic development	10,226	10,195	100.00
Debt service			
Principal	504,000	382,000	31.94
Interest and other charges	218,399	253,317	(13.78)
Total Expenditures	<u>\$ 2,568,550</u>	<u>\$ 3,337,870</u>	(23.05) %
Per Capita	<u>\$ 1,249</u>	<u>\$ 1,631</u>	(23.42) %
Total Long-term Indebtedness	\$ 8,279,000	\$ 8,783,000	(5.74) %
Per Capita	4,025	4,291	
General Fund Balance - December 31	\$ 2,425,077	\$ 2,339,505	3.66 %
Per Capita	1,179	1,143	

The purpose of this report is to provide a summary of financial information concerning the City of Cologne to interested citizens. The complete financial statements may be examined at City Hall, 1211 Village Parkway PO Box 120, Cologne MN 55322. Questions about this report should be directed to Jesse Dickson, City Administrator at (952) 466-2064.

OTHER REQUIRED REPORTS

CITY OF COLOGNE  
COLOGNE, MINNESOTA

FOR THE YEAR ENDED  
DECEMBER 31, 2022

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## INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE

Honorable Mayor and City Council  
City of Cologne, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Cologne, Minnesota (the City) as of and for the year ended December 31, 2022, and the related notes to the financial statements, and have issued our report thereon dated April 18, 2023.

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.

This report is intended solely for the information and use those charged with governance and management of the City and the State Auditor and is not intended to be and should not be used by anyone other than these specified parties.



**Abdo**  
Minneapolis, Minnesota  
April 18, 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**

Honorable Mayor and City Council  
City of Cologne, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Cologne, Minnesota (the City), 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 April 18, 2023.

**Internal Control Over Financial Reporting**

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

Our consideration of internal control was for the limited purpose described in the 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 were not identified. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control that we consider to be a material weakness and 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 2022-003 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 deficiencies described in the accompanying Schedule of Findings and Responses as items 2022-001 and 2022-002 to be significant deficiencies.



## Compliance and Other Matters

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

## The City's Response to Findings

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

## Purpose of this Report

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



**Abdo**  
Minneapolis, Minnesota  
April 18, 2023



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City of Cologne, Minnesota  
Schedule of Findings and Responses  
For the Year Ended December 31, 2022

<u>Finding</u>	<u>Description</u>
<b>2022-001</b>	<b>Limited Segregation of Duties</b>
<i>Condition:</i>	During our audit we reviewed procedures over cash receipts, cash disbursements, payroll, financial reporting, and capital assets and found the City to have limited segregation of duties over those transaction cycles.
<i>Criteria:</i>	There are four general categories of duties: authorization, custody, recording and reconciliation. In an ideal system, different employees perform each of these four major functions. In other words, no one person has control of two or more of these responsibilities.
<i>Cause:</i>	One employee of the City (City Clerk/Treasurer) is responsible for all four general categories in the transaction cycles listed above.
<i>Effect:</i>	The existence of this limited segregation of duties increases the risk of fraud and error.
<i>Recommendation:</i>	While we recognize the number of staff is not large enough to eliminate this deficiency, we recommend that the City evaluate the current procedures and segregate duties where possible and implement any compensating controls. It is important that the City Council is aware of this condition and monitor all financial information.
<i>Management Response:</i>	
Management recognizes that it is not economically feasible to correct this finding, however is aware of the deficiency and is relying on oversight by management and the City Council to monitor this deficiency.	

City of Cologne, Minnesota  
Schedule of Findings and Responses (Continued)  
For the Year Ended December 31, 2022

<u>Finding</u>	<u>Description</u>
<b>2022-002</b>	<b>Preparation of Financial Statements</b>
<i>Condition:</i>	We were requested to draft the audited financial statements and related footnote disclosures as part of our regular audit services. Auditing standards require auditors to communicate this situation to the City Council as an internal control deficiency. Ultimately, it is management's responsibility to provide for the preparation of your statements and footnotes, and the responsibility of the auditor to determine the fairness of presentation of those statements. It is our responsibility to inform you that this deficiency could result in a material misstatement to the financial statements that could have been prevented or detected by your management. Essentially, the auditors cannot be part of your internal control process.
<i>Criteria:</i>	Internal controls should be in place to provide reasonable assurance over financial reporting.
<i>Cause:</i>	From a practical standpoint we do both for you at the same time in connection with our audit. This is not unusual for us to do with an organization of your size.
<i>Effect:</i>	The effectiveness of the internal control system relies on enforcement by management. The effect of deficiencies in internal controls can result in undetected errors in financial reporting.
<i>Recommendation:</i>	It is your responsibility to make the ultimate decision to accept this degree of risk associated with this condition because of cost or other considerations. We have instructed management to review a draft of the auditor prepared financials in detail for their accuracy; we have answered any questions they might have, and have encouraged research of any accounting guidance in connection with the adequacy and appropriateness of classification of disclosure in your statements. While the City is reviewing the financial statements, we recommend that the City agree its financial software to the numbers reported in the financial statements.
<i>Management Response:</i>	
	For now, the City's management accepts the degree of risk associated with this condition and thoroughly reviews a draft of the financial statements.

City of Cologne, Minnesota  
Schedule of Findings and Responses (Continued)  
For the Year Ended December 31, 2022

<u>Finding</u>	<u>Description</u>
<b>2022-003</b>	<b>Material Audit Adjustment</b>
<i>Condition:</i>	During our audit, material adjustments were needed to correct the beginning capital and debt enterprise balances.
<i>Criteria:</i>	Adjustments were needed to correct beginning balances. The financial statements are the responsibility of the City's management; therefore, the City must be able to prevent or detect a material misstatement in the financial statements.
<i>Cause:</i>	City staff did not prepare a year end trial balance reflecting all necessary accounting entries in the areas noted above. This was mainly due to recording of journal entries in the correct audit period.
<i>Effect:</i>	This indicates that it would be likely that a misstatement may occur and not be detected by the City's system of internal control.
<i>Recommendation:</i>	We recommend management review the related journal entries, obtain an understanding of why the entries were necessary and modify current procedure to ensure that future entries are completed timely and in the correct audit period.
<i>Management Response:</i>	

Management agrees with the finding and understands the reason the adjustments were needed. Procedures over year- end adjustments will be reevaluated to eliminate the need for related audit adjustments in the future.