

In the opinion of Fryberger, Buchanan, Smith & Frederick, P.A., Bond Counsel, based on present federal and Minnesota laws, regulations, rulings and decisions, and assuming compliance with certain requirements of the Internal Revenue Code of 1986, as amended (the "Code"), and certain covenants of the City, interest to be paid on the Bonds is excluded from gross income for federal income tax purposes and from taxable net income of individuals, estates and trusts for Minnesota income tax purposes, and is not an item of tax preference which is included in alternative minimum taxable income for purposes of the federal alternative minimum tax imposed on individuals or the Minnesota alternative minimum tax imposed on individuals, trusts and estates; however, interest on the Bonds may affect the federal alternative minimum tax imposed on certain corporations. Such interest is includable in taxable income of corporations and financial institutions for purposes of the Minnesota franchise tax. (See "TAX EXEMPTION" herein.)

The Bonds will be designated as "qualified tax-exempt obligations" for purposes of Section 265(b)(3) of the Internal Revenue Code of 1986, as amended, relating to the ability of financial institutions to deduct from income for federal income tax purposes, interest expense that is allocable to carrying and acquiring tax-exempt obligations. No opinion will be expressed regarding other state of federal tax consequences caused by the receipt of accrual of interest on or arising with respect to ownership of the Bonds. See "TAX EXEMPTION" herein.

New Issue

Rating Application Made: S&P Global Ratings

CITY OF AITKIN, MINNESOTA
(Aitkin County)

(Minnesota City Credit Enhancement Program)

**\$3,105,000* GENERAL OBLIGATION SEWAGE DISPOSAL SYSTEM BONDS,
SERIES 2025B**

PROPOSAL OPENING: December 1, 2025, 10:00 A.M., C.T.

CONSIDERATION: December 1, 2025, 6:00 P.M., C.T.

PURPOSE/AUTHORITY/SECURITY: The \$3,105,000* General Obligation Sewage Disposal System Bonds, Series 2025B (the "Bonds") are being issued pursuant to Minnesota Statutes, Section 115.46 and Chapter 475, as amended, by the City of Aitkin, Minnesota (the "City"), to finance the construction of various improvements to the municipal sewer system in the City. The bonds will be general obligations of the City for which its full faith and credit and taxing powers are pledged. Delivery is subject to receipt of an approving legal opinion of Fryberger, Buchanan, Smith & Frederick, P.A., Duluth, Minnesota.

DATE OF BONDS: December 18, 2025

MATURITY: February 1 as follows:

Year	Amount*	Year	Amount*	Year	Amount*
2027	\$95,000	2034	\$140,000	2041	\$180,000
2028	115,000	2035	140,000	2042	185,000
2029	120,000	2036	145,000	2043	195,000
2030	120,000	2037	155,000	2044	200,000
2031	125,000	2038	160,000	2045	210,000
2032	130,000	2039	165,000	2046	220,000
2033	135,000	2040	170,000		

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

TERM BONDS: See "Term Bond Option" herein.

INTEREST: August 1, 2026 and semiannually thereafter.

OPTIONAL REDEMPTION: Bonds maturing on February 1, 2037 and thereafter are subject to call for prior optional redemption on February 1, 2036 or any date thereafter, at a price of par plus accrued interest to the date of optional redemption.

MINIMUM PROPOSAL: \$3,067,740.

GOOD FAITH DEPOSIT: A good faith deposit in the amount of \$62,100 shall be made by the winning bidder by wire transfer of funds.

PAYING AGENT: Bond Trust Services Corporation.

BOND COUNSEL: Fryberger, Buchanan, Smith & Frederick, P.A..

MUNICIPAL ADVISOR: Ehlers and Associates, Inc.

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

REPRESENTATIONS

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

This Preliminary Official Statement is not to be construed as a contract with the Underwriter (Syndicate Manager). Statements contained herein which involve estimates or matters of opinion are intended solely as such and are not to be construed as representations of fact. Ehlers and Associates, Inc. prepared this Preliminary Official Statement and any addenda thereto relying on information of the City and other sources for which there is reasonable basis for believing the information is accurate and complete. Bond Counsel has not participated in the preparation of this Preliminary Official Statement and is not expressing any opinion as to the completeness or accuracy of the information contained therein. Compensation of Ehlers and Associates, Inc., payable entirely by the City, is contingent upon the delivery of the Bonds.

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

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

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

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

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

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

CLOSING CERTIFICATES

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

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CITY OF AITKIN CITY COUNCIL

		<u>Term Expires</u>
Gary Tibbitts	Mayor	January 2029
Justin Cartie	Council Member	January 2029
Chris Dotzler	Council Member	January 2027
Jason Henke	Council Member	January 2029
Julie Miller	Council Member	January 2027

ADMINISTRATION

Jen Thompson, City Administrator

Samantha Sass, City Clerk

PROFESSIONAL SERVICES

Ryan & Brucker, Ltd., City Attorney, Aitkin, Minnesota

Fryberger, Buchanan, Smith & Frederick, P.A., Bond Counsel, Duluth, Minnesota

Ehlers and Associates, Inc., Municipal Advisors, Minneapolis, Minnesota
(Other office located in Waukesha, Wisconsin)

INTRODUCTORY STATEMENT

This Preliminary Official Statement contains certain information regarding the City of Aitkin, Minnesota (the "City") and the issuance of its \$3,105,000* General Obligation Sewage Disposal System Bonds, Series 2025B (the "Bonds"). Any descriptions or summaries of the Bonds, statutes, or documents included herein are not intended to be complete and are qualified in their entirety by reference to such statutes and documents and the form of the Bonds to be included in the resolution authorizing the issuance and sale of the Bonds ("Award Resolution") to be adopted by the City Council on December 1, 2025.

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

THE BONDS

GENERAL

The Bonds will be issued in fully registered form as to both principal and interest in denominations of \$5,000 each or any integral multiple thereof, and will be dated, as originally issued, as of December 18, 2025. The Bonds will mature on February 1 in the years and amounts set forth on the cover of this Preliminary Official Statement. Interest will be payable on February 1 and August 1 of each year, commencing August 1, 2026, to the registered owners of the Bonds appearing of record in the bond register as of the close of business on the 15th day (whether or not a business day) of the immediately preceding month. Interest will be computed upon the basis of a 360-day year of twelve 30-day months and will be rounded pursuant to rules of the Municipal Securities Rulemaking Board ("MSRB"). **The rate for any maturity may not be more than 1.00% less than the rate for any preceding maturity. (For example, if a rate of 4.50% is proposed for the 2027 maturity, then the lowest rate that may be proposed for any later maturity is 3.50%.)** All Bonds of the same maturity must bear interest from the date of issue until paid at a single, uniform rate. Each rate must be expressed in an integral multiple of 5/100 or 1/8 of 1%.

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

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

*Preliminary, subject to change.

OPTIONAL REDEMPTION

At the option of the City, the Bonds maturing on or after February 1, 2037 shall be subject to optional redemption prior to maturity on February 1, 2036 or any date thereafter, at a price of par plus accrued interest to the date of optional redemption.

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

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

AUTHORITY; PURPOSE

The Bonds are being issued pursuant to Minnesota Statutes, Section 115.46 and Chapter 475, as amended, by the City, to finance the construction of various improvements to the municipal sewer system within the City.

ESTIMATED SOURCES AND USES*

Sources			
Par Amount of Bonds		<u>\$3,105,000</u>	
Total Sources			\$3,105,000
Uses			
Total Underwriter's Discount (1.200%)		\$37,260	
Costs of Issuance		66,000	
Deposit to Construction Fund		3,000,000	
Rounding Amount		<u>1,740</u>	
Total Uses			\$3,105,000

*Preliminary, subject to change.

SECURITY

The Bonds will be general obligations of the City for which its full faith and credit and taxing powers are pledged without limitation as to rate or amount. The City anticipates that the debt service on the Bonds will be paid from ad valorem property taxes. Receipt of ad valorem taxes will be sufficient to provide not less than 105% of principal and interest on the Bonds as required by Minnesota law.

Although property taxes are pledged to the payment of the debt service on the Bonds each year, the City may reduce or cancel the property tax levy for the Bonds to the extent the City has sufficient sanitary sewer revenues on hand to meet its debt service obligations on the Bonds as they come due.

Should the ad valorem property taxes pledged for payment of the Bonds be insufficient to pay the principal and interest as the same shall become due, the City is required to pay maturing principal and interest from moneys on hand in any other fund of the City not pledged for another purpose and/or to levy a tax for this purpose upon all the taxable property in the City, without limitation as to rate or amount.

RATING

The City will be participating in the State of Minnesota Credit Enhancement Program ("MNCEP") for this issue and is requesting a credit enhanced rating from S&P Global Ratings ("S&P"). S&P has a policy which assigns a rating of "AAA" to issuers participating in the MNCEP. The "AAA" rating is based on the State of Minnesota's current "AAA"/Stable outlook rating from S&P. See "STATE OF MINNESOTA CREDIT ENHANCEMENT PROGRAM" for further details.

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

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

STATE OF MINNESOTA CREDIT ENHANCEMENT PROGRAM

By resolution adopted for this issue on November 3, 2025 (the "Resolution"), the City has covenanted and obligated itself to be bound by the provisions of Minnesota Statutes, Section 446A.086 (the "Act"), which provides for payment by the State of Minnesota in the event of a potential default of certain obligations. The City has entered into a Credit Enhancement Program Agreement (the "Agreement") with the Minnesota Public Facilities Authority (the "Authority"), which is acting on behalf of the State of Minnesota. The provisions of the Agreement shall be binding on the City as long as any obligations of the issue remain outstanding.

The City covenants in the Agreement to deposit with the paying agent for the issue three business days prior to the date on which a payment is due an amount sufficient to make that payment. Under the Agreement, if the City believes it may be unable to make a principal or interest payment for this issue on the due date, it must notify the Authority not less than 15 business days prior to the date a payment is due on the Bonds if the City will be unable to make all or a portion of the payment. The City's agreement with the Paying Agent for the Bonds requires the Paying Agent to immediately inform the Minnesota Commissioner of Management and Budget, with a copy to the Authority, if the Paying Agent becomes aware of a default or potential default in the payment of principal or interest on the Bonds, or if, on the day two business days before the date a payment is due on the Bonds, there are insufficient funds on deposit with the Paying Agent to make the payment.

If the City is unable to make any portion of the payment on the Bonds on or before the date due, the State of Minnesota, acting through the Authority, shall make such payment in its place pursuant to the Act, providing that funds are available in the State General Fund. The obligation to make a payment under the Act is not a general obligation of the State of Minnesota. The Act does not obligate the Minnesota legislature to provide for the availability of funds in the General Fund for this purpose.

CONTINUING DISCLOSURE

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

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

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

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

LEGAL MATTERS

Legal matters incident to the issuance and sale of the Bonds and with regard to the tax-exempt status of interest on the Bonds under existing laws are subject to the approving legal opinion of Fryberger, Buchanan, Smith & Frederick, P.A., as Bond Counsel to the City. Bond Counsel has not examined nor attempted to examine or verify any of the financial or statistical statements or data contained in the Official Statement and will express no opinions with respect to such information. Additionally, except for statements on the cover page of the Official Statement and under the caption "TAX EXEMPTION" relating to Bond Counsel's opinion that the interest on the Bonds is not includable in gross income for federal income tax purposes, Bond Counsel has not independently verified any of the factual information contained in the Official Statement nor have they conducted an investigation of the affairs of the City for the purpose of passing upon the accuracy or completeness of the Official Statement. No person is entitled to rely upon their limited participation as an assumption of responsibility for, or an expression of opinion of any kind with regard to, the accuracy or completeness of any of the information contained in the Official Statement. See "FORM OF LEGAL OPINION" found in Appendix C.

TAX EXEMPTION

The following discussion is not intended to be an exhaustive discussion of collateral tax consequences arising from ownership or disposition of the Bonds or receipt of interest on the Bonds. Prospective purchasers should consult their tax advisors with respect to collateral tax consequences, including without limitation, the determination of gain or loss on the sale of a bond, the calculation of alternative minimum tax liability; the inclusion of Social Security or other retirement payments in taxable income, the disallowance of deductions for certain expenses attributable to the Bonds, and applicable state and local tax rules in states other than Minnesota.

In the opinion of Fryberger, Buchanan, Smith & Frederick, P.A., Duluth, Minnesota, as Bond Counsel, based on present federal and Minnesota laws, regulations, rulings and decisions, and on certifications to be furnished at closing, and assuming compliance by the City with certain tax covenants, that interest to be paid on the Bonds is excluded from gross income for purposes of federal income taxation and from taxable net income of individuals, trusts and estates for purposes of Minnesota income taxation. Such interest is, however, included in taxable income of corporations and financial institutions for purposes of the Minnesota franchise tax; and is not an item of tax preference which is included in alternative minimum taxable income for purposes of the federal alternative minimum tax imposed on individuals or the Minnesota alternative minimum tax imposed on individuals, trusts and estates; however, interest on the Bonds may affect the federal alternative minimum tax imposed on certain corporations.

Certain provisions of the Internal Revenue Code of 1986, as amended (the "Code"), however, impose continuing requirements that must be met after the issuance of the Bonds in order that interest on the Bonds be and remain excludable from federal gross income and from Minnesota taxable net income of individuals, estates, and trusts. These requirements include, but are not limited to, provisions regarding the use of bond proceeds and the facilities financed or refinanced with such proceeds; restrictions on the investment of bond proceeds and other amounts; and provisions requiring that certain investment earnings be rebated periodically to the federal government. Noncompliance with such requirements of the Code may cause interest on the Bonds to be includable in federal gross income or in Minnesota taxable net income retroactively to their date of issue. Compliance with the City's tax covenants will satisfy the current requirements of the Code with respect to exclusion of interest on the Bonds from federal gross income and from Minnesota taxable net income of individuals, estates and trusts. No provision has been made for redemption of or for an increase in the interest rate on the Bonds in the event that interest on the same becomes includable in federal gross income or in Minnesota taxable net income.

Bond Counsel has not undertaken to advise in the future whether any events after the date of issuance of the Bonds may affect the tax exempt status of interest on the Bonds or the tax consequences of ownership of the Bonds. No assurance can be given that future legislation, if enacted into law, will not contain provisions which could directly or indirectly affect the exclusion of the interest on the Bonds from gross income for federal income tax purposes.

Interest paid on tax-exempt obligations such as the Bonds is now generally required to be reported by payors to the Internal Revenue Service ("IRS") and to recipients in the same manner as interest on taxable obligations. In addition, such interest may be subject to "backup withholding" if the bond owner fails to provide the information required on IRS Form W-9, Request for Taxpayer Identification Number and Certification, or the IRS has identified the bond owner as being subject to backup withholding.

QUALIFIED TAX-EXEMPT OBLIGATIONS

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

MUNICIPAL ADVISOR

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

MUNICIPAL ADVISOR AFFILIATED COMPANIES

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

INDEPENDENT AUDITORS

The basic financial statements of the City for the fiscal year ended December 31, 2024 have been audited by CliftonLarsonAllen LLP, Brainerd, Minnesota, independent auditors (the "Auditor"). The report of the Auditor, together with the basic financial statements, component units financial statements, and notes to the financial statements are attached hereto as "APPENDIX A – FINANCIAL STATEMENTS OF THE CITY". The Auditor has not been engaged to perform and has not performed, since the date of its report included herein, any procedures on the financial statements addressed in that report. The Auditor also has not performed any procedures relating to this Preliminary Official Statement.

RISK FACTORS

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

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

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

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

Ratings; Interest Rates: In the future, the City's credit rating may be reduced or withdrawn, or interest rates for this type of obligation may rise generally, either possibility resulting in a reduction in the value of the Bonds for resale prior to maturity.

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

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

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

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

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

Taconite Tax Loss: The City, in common with other Iron Range Communities, receives grants and aids which are derived from special taconite taxes and which may be reduced in the event of production curtailment. Also, homeowners now receive substantial homestead credits from taxes derived from taconite sources which may be reduced with a cut in production. Reduction of grants, state aids and credits could increase the City's need for other local taxes.

Iron Mining Economy: The City is located on Minnesota's Iron Range, with an economy directly related to the mining industry, including processing and shipping of iron ore (pellets) for the nation's steel industry and for foreign shipments. Beginning in 1981, economic downturns reduced demand for steel and for taconite pellets, and some taconite plants curtailed operations and employment.

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

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

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

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

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

VALUATIONS

OVERVIEW

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

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

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

Type of Property	2022/23	2023/24	2024/25
Residential homestead ¹	First \$500,000 - 1.00% Over \$500,000 - 1.25%	First \$500,000 - 1.00% Over \$500,000 - 1.25%	First \$500,000 - 1.00% Over \$500,000 - 1.25%
Agricultural homestead ¹	First \$500,000 HGA - 1.00% Over \$500,000 HGA - 1.25% First \$1,890,000 - 0.50% ² Over \$1,890,000 - 1.00% ²	First \$500,000 HGA - 1.00% Over \$500,000 HGA - 1.25% First \$2,150,000 - 0.50% ² Over \$2,150,000 - 1.00% ²	First \$500,000 HGA - 1.00% Over \$500,000 HGA - 1.25% First \$3,500,000 - 0.50% ² Over \$3,500,000 - 1.00% ²
Agricultural non-homestead	Land - 1.00% ²	Land - 1.00% ²	Land - 1.00% ²
Seasonal recreational residential	First \$500,000 - 1.00% ³ Over \$500,000 - 1.25% ³	First \$500,000 - 1.00% ³ Over \$500,000 - 1.25% ³	First \$500,000 - 1.00% ³ Over \$500,000 - 1.25% ³
Residential non-homestead:	1 unit - 1st \$500,000 - 1.00% Over \$500,000 - 1.25% 2-3 units - 1.25% 4 or more - 1.25% Small City ⁴ - 1.25% Affordable Rental: First \$174,000 - 0.75% Over \$174,000 - 0.25%	1 unit - 1st \$500,000 - 1.00% Over \$500,000 - 1.25% 2-3 units - 1.25% 4 or more - 1.25% Small City ⁴ - 1.25% Affordable Rental: First \$100,000 - 0.75% Over \$100,000 - 0.25%	1 unit - 1st \$500,000 - 1.00% Over \$500,000 - 1.25% 2-3 units - 1.25% 4 or more - 1.25% Small City ⁴ - 1.25% Affordable Rental – 0.25%
Industrial/Commercial/Utility ⁵	First \$150,000 - 1.50% Over \$150,000 - 2.00%	First \$150,000 - 1.50% Over \$150,000 - 2.00%	First \$150,000 - 1.50% Over \$150,000 - 2.00%

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

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

³ Exempt from referendum market value tax.

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

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

CURRENT PROPERTY VALUATIONS

2024/25 Economic Market Value	<u>\$196,803,068¹</u>
2024/25 Assessor's Estimated Market Value	
Real Estate	\$187,906,700
Personal Property	<u>1,376,100</u>
Total Valuation	<u>\$189,282,800</u>
2024/25 Net Tax Capacity	
Real Estate	\$2,114,598
Personal Property	<u>26,209</u>
Net Tax Capacity	\$2,140,807
Less:	
Captured Tax Increment Tax Capacity ²	(36,368)
Fiscal Disparities Contribution ³	<u>(242,527)</u>
Taxable Net Tax Capacity	\$1,861,912
Plus: Fiscal Disparities Distribution ³	<u>275,445</u>
Adjusted Taxable Net Tax Capacity	<u>\$2,137,357</u>

¹ According to the Minnesota Department of Revenue, the Assessor's Estimated Market Value (the "AEMV") for the City was about 96.18% of the actual selling prices of property sold in the City. The sales ratio was calculated by comparing the selling prices with the AEMV. Dividing the AEMV of real estate by the sales ratio and adding the AEMV of personal property and utility, railroads and minerals, if any, results in an Economic Market Value ("EMV") for the City of \$196,803,068.

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

³ Each community in the taconite credit area contributes 40% of the growth in its commercial- industrial property tax base to an area pool which is then distributed among the municipalities on the basis of population, special needs, etc. Each governmental unit makes a contribution and receives a distribution--sometimes gaining and sometimes contributing net tax capacity for tax purposes.

2024/25 NET TAX CAPACITY BY CLASSIFICATION

	2024/25 Net Tax Capacity	Percent of Total Net Tax Capacity
Residential homestead	\$798,597	37.30%
Agricultural	3,877	0.18%
Commercial/industrial	786,196	36.72%
Railroad operating property	14,980	0.70%
Non-homestead residential	504,748	23.58%
Commercial & residential seasonal/rec.	6,200	0.29%
Personal property	<u>26,209</u>	<u>1.22%</u>
Total	<u><u>\$2,140,807</u></u>	<u><u>100.00%</u></u>

TREND OF VALUATIONS

Levy Year	Assessor's Estimated Market Value	Assessor's Taxable Market Value	Net Tax Capacity¹	Adjusted Taxable Net Tax Capacity²	Percent Increase/Decrease in Estimated Market Value
2020/21	\$131,068,200	\$117,784,013	\$1,529,614	\$1,481,285	1.22%
2021/22	137,823,700	124,971,300	1,602,955	1,573,187	5.15%
2022/23	166,708,700	155,057,865	1,909,997	1,844,564	20.96%
2023/24	180,507,900	169,331,750	2,068,854	2,066,774	8.28%
2024/25	189,282,800	173,814,471	2,140,807	2,137,357	4.86%

¹ Net Tax Capacity is before fiscal disparities adjustments and includes tax increment values.

² Adjusted Taxable Net Tax Capacity is after fiscal disparities adjustments and does not include tax increment values.

LARGEST TAXPAYERS

Taxpayer	Type of Property	2024/25 Net Tax Capacity	Percent of City's Total Net Tax Capacity
Aicota Health Care Center, Inc.	Commercial	\$65,669	3.07%
Aitkin Auto Group Properties LLC	Commercial	56,426	2.64%
R K Midwest Enterprises LLP	Commercial	55,862	2.61%
Paulbeck's Real Property LLC	Commercial	55,117	2.57%
Glenn Aitkin Properties LLC	Commercial	52,414	2.45%
Aitkin Real Assets LLC	Commercial	38,664	1.81%
Kenneth L. Kellar Foundation	Commercial	37,407	1.75%
Midwest Properties of Aitkin LLC	Commercial	36,413	1.70%
Individual	Commercial	28,451	1.33%
Larson Rental Properties of Aitkin	Commercial	<u>26,670</u>	<u>1.25%</u>
Total		\$453,093	21.16%

City's Total 2024/25 Net Tax Capacity \$2,140,807

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

DEBT

DIRECT DEBT¹

General Obligation Debt (see schedules following)

Total G.O. debt secured by tax abatement revenues	\$345,000
Total G.O. debt secured by taxes (includes the Bonds)*	4,508,000
Total G.O. debt secured by utility revenues	4,388,190
Total General Obligation Debt*	<u><u>\$9,241,190</u></u>

*Preliminary, subject to change.

DEBT PAYMENT HISTORY

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

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

FUTURE FINANCING

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

DEBT LIMIT

The statutory limit on net debt of Minnesota municipalities other than school districts or cities of the first class (Minnesota Statutes, Section 475.53, subd. 1) is 3% of the Assessor's Estimated Market Value of all taxable property within its boundaries. "Net debt" means the amount remaining after deducting from gross debt the amount of current revenues which are applicable within the current fiscal year to the payment of any debt and the aggregate principal of certain obligations enumerated under Minnesota Statutes, Section 475.51, subd.4, including the following: (1) obligations issued for improvements payable wholly or partly from special assessments levied against benefitted property; (2) warrants or orders having no definite or fixed maturity; (3) obligations payable wholly from the income of revenue producing conveniences; (4) obligations issued to create or maintain a permanent improvement revolving fund; (5) obligations issued to finance any revenue producing public convenience; (6) funds held as sinking funds for payment of principal and interest on debt other than those deductible under Minnesota Statutes, Section 475.51, subd. 4; (7) obligations to repay energy conservation investment loans under Minnesota Statutes, Section 216C.37; (8) obligations issued to pay certain postemployment benefit liabilities; (9) obligations issued to pay certain judgments against the City; and (10) all other obligations which are not to be included in computing the net debt of a municipality under the provisions of the law authorizing their issuance (includes the Bonds).

2024/25 Assessor's Estimated Market Value	\$189,282,800
Multiply by 3%	<u>0.03</u>
Statutory Debt Limit	\$5,678,484
Less: Long-Term Debt Outstanding Being Paid Solely from Taxes ¹	<u>(1,403,000)</u>
Unused Debt Limit	<u><u>\$4,275,484</u></u>

¹ Does not include the Bonds of this offering, as they are not subject to the debt limit calculation per Minnesota Statutes.

City of Aitkin, Minnesota
Schedule of Bonded Indebtedness
General Obligation Debt Secured by Tax Abatement Revenues
(As of 12/18/2025)

Tax Abatement Refunding Bonds 1) Series 2021A								
Dated	06/24/2021							
Amount	\$485,000							
Maturity	02/01							
Calendar Year Ending	Principal	Interest	Total Principal	Total Interest	Total P & I	Principal Outstanding	% Paid	Calendar Year Ending
2026	35,000	5,270	35,000	5,270	40,270	310,000	10.14%	2026
2027	35,000	4,570	35,000	4,570	39,570	275,000	20.29%	2027
2028	35,000	3,870	35,000	3,870	38,870	240,000	30.43%	2028
2029	40,000	3,120	40,000	3,120	43,120	200,000	42.03%	2029
2030	40,000	2,480	40,000	2,480	42,480	160,000	53.62%	2030
2031	40,000	2,000	40,000	2,000	42,000	120,000	65.22%	2031
2032	40,000	1,480	40,000	1,480	41,480	80,000	76.81%	2032
2033	40,000	920	40,000	920	40,920	40,000	88.41%	2033
2034	40,000	320	40,000	320	40,320	0	100.00%	2034
	345,000	24,030	345,000	24,030	369,030			

- 1) This represents the \$485,000 Tax Abatement Refunding portion of the \$2,175,000 General Obligation Street Reconstruction, Equipment and Refunding Bonds, Series 2021A.

City of Aitkin, Minnesota
Schedule of Bonded Indebtedness
General Obligation Debt Secured by Taxes
(As of 12/18/2025)

	Improvement Bonds Series 2014A		Street Reconstruction Refunding Bonds Series 2017A		Street Reconstruction & Equipment Bonds 1) Series 2021A		Sewer Revenue Bonds 2) Series 2025B							
Dated Amount	09/01/2014 \$149,000		02/28/2017 \$155,000		06/24/2021 \$1,690,000		12/18/2025 \$3,105,000*							
Maturity	02/01		03/01		02/01		02/01							
Calendar Year Ending	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Estimated Interest	Total Principal	Total Interest	Total P & I	Principal Outstanding	% Paid	Calendar Year Ending
2026	11,000	2,033	19,000	219	125,000	21,025	0	72,782	155,000	96,058	251,058	4,353,000	3.44%	2026
2027	11,000	1,615			125,000	18,525	95,000	115,951	231,000	136,091	367,091	4,122,000	8.56%	2027
2028	12,000	1,178			130,000	15,975	115,000	112,596	257,000	129,749	386,749	3,865,000	14.26%	2028
2029	12,000	722			130,000	13,375	120,000	108,925	262,000	123,022	385,022	3,603,000	20.08%	2029
2030	13,000	247			95,000	11,505	120,000	105,205	228,000	116,957	344,957	3,375,000	25.13%	2030
2031					100,000	10,335	125,000	101,376	225,000	111,711	336,711	3,150,000	30.12%	2031
2032					100,000	9,035	130,000	97,328	230,000	106,363	336,363	2,920,000	35.23%	2032
2033					100,000	7,635	135,000	93,020	235,000	100,655	335,655	2,685,000	40.44%	2033
2034					100,000	6,135	140,000	88,448	240,000	94,583	334,583	2,445,000	45.76%	2034
2035					105,000	4,495	140,000	83,688	245,000	88,183	333,183	2,200,000	51.20%	2035
2036					105,000	2,763	145,000	78,699	250,000	81,461	331,461	1,950,000	56.74%	2036
2037					110,000	935	155,000	73,258	265,000	74,193	339,193	1,685,000	62.62%	2037
2038							160,000	67,350	160,000	67,350	227,350	1,525,000	66.17%	2038
2039							165,000	61,093	165,000	61,093	226,093	1,360,000	69.83%	2039
2040							170,000	54,475	170,000	54,475	224,475	1,190,000	73.60%	2040
2041							180,000	47,385	180,000	47,385	227,385	1,010,000	77.60%	2041
2042							185,000	39,856	185,000	39,856	224,856	825,000	81.70%	2042
2043							195,000	31,874	195,000	31,874	226,874	630,000	86.02%	2043
2044							200,000	23,380	200,000	23,380	223,380	430,000	90.46%	2044
2045							210,000	14,410	210,000	14,410	224,410	220,000	95.12%	2045
2046							220,000	4,895	220,000	4,895	224,895	0	100.00%	2046
	59,000	5,795	19,000	219	1,325,000	121,738	3,105,000	1,475,992	4,508,000	1,603,743	6,111,743			

* Preliminary, subject to change.

1) This represents the \$1,690,000 Street Reconstruction & Equipment portions of the \$2,175,000 General Obligation Street Reconstruction, Equipment and Refunding Bonds, Series 2021A.

2) This issue is not subject to the debt limit.

City of Aitkin, Minnesota
Schedule of Bonded Indebtedness
General Obligation Debt Secured by Utility Revenues
(As of 12/18/2025)

	Revenue Note Series 2016		Water Revenue Bonds Series 2016A		Utility Revenue Refunding Bonds Series 2017A		Revenue Note Series 2019A		Revenue Note Series 2019B	
Dated	07/28/2016		09/15/2016		02/28/2017		08/05/2019		08/05/2019	
Amount	\$826,952		\$460,000		\$113,000		\$881,442		\$943,764	
Maturity	08/20		02/01		03/01		08/20		08/20	
Calendar Year Ending	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2026	42,000	5,020	30,000	5,978	13,000	150	42,000	6,340	45,000	6,770
2027	42,000	4,587	30,000	5,393			43,000	5,920	46,000	6,320
2028	43,000	4,153	30,000	4,650			43,000	5,490	46,000	5,860
2029	43,000	3,708	35,000	3,675			44,000	5,060	47,000	5,400
2030	44,000	3,264	35,000	2,625			44,000	4,620	47,000	4,930
2031	44,000	2,810	35,000	1,575			45,000	4,180	48,000	4,460
2032	45,000	2,355	35,000	525			45,000	3,730	48,000	3,980
2033	45,000	1,890					46,000	3,280	49,000	3,500
2034	46,000	1,426					46,000	2,820	49,000	3,010
2035	46,000	950					46,000	2,360	49,000	2,520
2036	46,000	475					47,000	1,900	50,000	2,030
2037							47,000	1,430	50,000	1,530
2038							48,000	960	51,000	1,030
2039							48,000	480	52,000	520
2040										
2041										
2042										
2043										
2044										
2045										
	486,000	30,639	230,000	24,420	13,000	150	634,000	48,570	677,000	51,860

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City of Aitkin, Minnesota
Schedule of Bonded Indebtedness continued
General Obligation Debt Secured by Utility Revenues
(As of 12/18/2025)

Revenue Note Series 2025A								
Dated	03/15/2025							
Amount	\$2,348,190							
Maturity	08/20							
Calendar Year Ending	Principal	Interest	Total Principal	Total Interest	Total P & I	Principal Outstanding	% Paid	Calendar Year Ending
2026	44,190	58,398	216,190	82,655	298,845	4,172,000	4.93%	2026
2027	102,000	43,154	263,000	65,373	328,373	3,909,000	10.92%	2027
2028	104,000	41,243	266,000	61,396	327,396	3,643,000	16.98%	2028
2029	106,000	39,296	275,000	57,139	332,139	3,368,000	23.25%	2029
2030	108,000	37,310	278,000	52,749	330,749	3,090,000	29.58%	2030
2031	110,000	35,287	282,000	48,312	330,312	2,808,000	36.01%	2031
2032	112,000	33,227	285,000	43,817	328,817	2,523,000	42.50%	2032
2033	114,000	31,129	254,000	39,800	293,800	2,269,000	48.29%	2033
2034	116,000	28,994	257,000	36,250	293,250	2,012,000	54.15%	2034
2035	118,000	26,821	259,000	32,652	291,652	1,753,000	60.05%	2035
2036	121,000	24,611	264,000	29,016	293,016	1,489,000	66.07%	2036
2037	123,000	22,345	220,000	25,305	245,305	1,269,000	71.08%	2037
2038	125,000	20,041	224,000	22,031	246,031	1,045,000	76.19%	2038
2039	128,000	17,700	228,000	18,700	246,700	817,000	81.38%	2039
2040	130,000	15,302	130,000	15,302	145,302	687,000	84.34%	2040
2041	132,000	12,868	132,000	12,868	144,868	555,000	87.35%	2041
2042	135,000	10,395	135,000	10,395	145,395	420,000	90.43%	2042
2043	137,000	7,867	137,000	7,867	144,867	283,000	93.55%	2043
2044	140,000	5,301	140,000	5,301	145,301	143,000	96.74%	2044
2045	143,000	2,678	143,000	2,678	145,678	0	100.00%	2045
	2,348,190	513,968	4,388,190	669,606	5,057,796			

OVERLAPPING DEBT¹

Taxing District	2024/25 Adjusted Taxable Net Tax Capacity	% In City	Total G.O. Debt ²	City's Proportionate Share
Aitkin County	\$57,001,862	3.7531%	\$7,970,000	\$299,122
I.S.D. No. 1(Aitkin Public Schools)	30,119,118	7.0963%	1,795,000 ³	<u>127,379</u>
City's Share of Total Overlapping Debt				<u><u>\$426,501</u></u>

DEBT RATIOS

	G.O. Debt	Debt/Economic Market Value \$196,803,068	Debt/ Per Capita 2,231 ⁴
Direct G.O. Debt Secured By:			
Tax Abatement Revenues	\$345,000		
Taxes*	4,508,000		
Utility Revenues	<u>4,388,190</u>		
Total General Obligation Debt*	\$9,241,190		
Less: G.O. Debt Paid Entirely from Revenues ⁵	<u>(4,388,190)</u>		
Tax Supported General Obligation Debt*	\$4,853,000	2.47%	\$2,175.26
City's Share of Total Overlapping Debt	<u>\$426,501</u>	<u>0.22%</u>	<u>\$191.17</u>
Total*	<u><u>\$5,279,501</u></u>	<u><u>2.68%</u></u>	<u><u>\$2,366.43</u></u>

*Preliminary, subject to change.

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

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

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

⁴ Estimated 2024 population.

⁵ Debt service on the City's general obligation revenue debt is being paid entirely from revenues and therefore is considered self-supporting debt.

TAX LEVIES, COLLECTIONS AND RATES

TAX LEVIES AND COLLECTIONS

Tax Year	Net Tax Levy ¹	Total Collected Following Year	Collected to Date	% Collected
2020/21	\$1,280,038	\$1,256,889	\$1,279,670	99.97%
2021/22	1,571,512	1,545,731	1,566,808	99.70%
2022/23	1,705,825	1,656,733	1,698,853	99.59%
2023/24	1,839,063	1,786,767	1,819,116	98.92%
2024/25	1,894,823	In process of collection		

Property taxes are collected in two installments in Minnesota--the first by May 15 and the second by October 15.² Mobile home taxes are collectible in full by August 31. Minnesota Statutes require that levies (taxes and special assessments) for debt service be at least 105% of the actual debt service requirements to allow for delinquencies.

TAX CAPACITY RATES³

	2020/21	2021/22	2022/23	2023/24	2024/25
Aitkin County	47.875%	47.424%	34.843%	31.534%	31.356%
City of Aitkin	94.028%	107.847%	96.932%	93.688%	97.715%
I.S.D. No. 1 (Aitkin Public Schools)	3.404%	7.786%	6.087%	7.007%	7.069%

Referendum Market Value Rates:

I.S.D. No. 1 (Aitkin Public Schools)	0.11670%	0.10307%	0.07491%	0.06357%	0.06422%
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Source: Tax Levies and Collections and Tax Capacity Rates have been furnished by Aitkin County.

THE ISSUER

CITY GOVERNMENT

The City was organized as a municipality in 1883. The City operates under a statutory form of government consisting of a five-member City Council of which the Mayor is not a voting member. The City Administrator is responsible for administrative details and financial records.

¹ This reflects the Final Levy Certification of the City after all adjustments have been made.

² Second half tax payments on agricultural property are due on November 15th of each year.

³ After reduction for State aids. Does not include the statewide general property tax against commercial/industrial, non-homestead resorts and seasonal recreational residential property.

EMPLOYEES; PENSIONS; UNIONS

The City currently has 15 full-time and four (4) part-time employees. All full-time and certain part-time employees of the City are covered by defined benefit pension plans administered by the Public Employee Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund (GERF) and the Public Employees Police and Fire Fund (PEPFF) which are cost-sharing multiple-employer retirement plans. PERA members belong to either the Coordinated Plan or the Basic Plan. Coordinated members are covered by Social Security. See the Notes to Financial Statements in Appendix A for a detailed description of the Plans.

Recognized and Certified Bargaining Units

Bargaining Unit	Expiration Date of Current Contract
Teamsters Local 346	December 31, 2025
Teamsters Local 320	December 31, 2025
LELS	December 31, 2025
American Federation of State, County and Municipal Employees Council 65	December 31, 2025

POST EMPLOYMENT BENEFITS

The City has obligations for some post-employment benefits for its employees. Accounting for these obligations is dictated by Governmental Accounting Standards Board Statement No. 75 (GASB 75). The City's most recent actuarial study shows a total OPEB liability of \$70,089 as of January 1, 2024. The City has been funding these obligations on a pay-as-you-go basis.

Source: The City's most recent actuarial study.

LITIGATION

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

MUNICIPAL BANKRUPTCY

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

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

FUNDS ON HAND (as of October 31, 2025)

Fund	Total Cash and Investments
General	\$584,285
Special Revenue	2,485,985
Debt Service	335,358
Capital Projects	4,634,000
Enterprise Funds	
Municipal Liquor Store	368,880
Public Utilities	<u>6,164,389</u>
Total Funds on Hand	<u><u>\$14,572,898</u></u>

ENTERPRISE FUNDS OF THE CITY¹

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

	2022 Audited	2023 Audited	2024 Audited
Liquor Store			
Total Operating Revenues	\$334,271	\$343,439	\$405,677
Less: Operating Expenses	<u>(309,466)</u>	<u>(342,823)</u>	<u>(295,494)</u>
Operating Income	\$24,805	\$616	\$110,183
Plus: Depreciation	<u>12,682</u>	<u>11,519</u>	<u>9,434</u>
Revenues Available for Debt Service	<u><u>\$37,487</u></u>	<u><u>\$12,135</u></u>	<u><u>\$119,617</u></u>

¹ For additional information on the enterprise fund of the City, see "APPENDIX A - FINANCIAL STATEMENTS OF THE CITY" attached to the Preliminary Official Statement.

ENTERPRISE FUNDS OF THE PUBLIC UTILITIES COMMISSION

The Aitkin Public Utilities Commission ("PUC") is a component of the City created under the laws of the State. The financial statements include the operations the PUC, included in the PUC Annual Audited Financial Statements. The Electric, Water and Wastewater Treatment Department are treated as a single fund. For additional information on the PUC, see "APPENDIX B - FINANCIAL STATEMENTS OF THE PUBLIC UTILITIES COMMISSION" attached to the Preliminary Official Statement.

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

	2022 Audited	2023 Audited	2024 Audited
Electric			
Total Operating Revenues	\$4,507,508	\$4,504,985	\$4,576,814
Less: Operating Expenses	<u>(3,736,972)</u>	<u>(3,928,378)</u>	<u>(3,751,505)</u>
Operating Income	\$770,536	\$576,607	\$825,309
Plus: Depreciation	<u>215,155</u>	<u>215,457</u>	<u>196,978</u>
Revenues Available for Debt Service	<u><u>\$985,691</u></u>	<u><u>\$792,064</u></u>	<u><u>\$1,022,287</u></u>
Water			
Total Operating Revenues	\$340,655	\$390,660	\$751,109
Less: Operating Expenses	<u>(249,057)</u>	<u>(295,558)</u>	<u>(562,424)</u>
Operating Income	\$91,598	\$95,102	\$188,685
Plus: Depreciation	<u>44,149</u>	<u>44,427</u>	<u>44,984</u>
Revenues Available for Debt Service	<u><u>\$135,747</u></u>	<u><u>\$139,529</u></u>	<u><u>\$233,669</u></u>
Wastewater			
Total Operating Revenues	\$559,575	\$651,578	\$939,586
Less: Operating Expenses	<u>(492,467)</u>	<u>(454,605)</u>	<u>(429,958)</u>
Operating Income	\$67,108	\$196,973	\$509,628
Plus: Depreciation	<u>39,212</u>	<u>41,187</u>	<u>49,165</u>
Revenues Available for Debt Service	<u><u>\$106,320</u></u>	<u><u>\$238,160</u></u>	<u><u>\$558,793</u></u>

SUMMARY GENERAL FUND INFORMATION

The following are summaries of the revenues, expenditures and fund balances for the City's General Fund. These summaries are not purported to be the complete audited financial statements of the City, and potential purchasers should read the included financial statements in their entirety for more complete information concerning the City. Copies of the complete statements are available upon request. Appendix A includes the City's 2024 audited financial statements.

COMBINED STATEMENT	FISCAL YEAR ENDING DECEMBER 31				
	2021 Audited	2022 Audited	2023 Audited	2024 Audited	2025 Adopted Budget ¹
Revenues					
Taxes	\$859,268	\$981,463	\$1,134,696	\$1,443,256	\$1,468,200
Special assessments	2,600	5,751	0	0	0
Licenses and permits	51,857	202,181	97,019	80,759	54,630
Intergovernmental	934,696	898,785	991,600	1,041,570	937,586
Charges for services	9,269	16,031	12,892	8,592	5,445
Fines and forfeitures	46,798	33,589	35,006	18,260	6,000
Contributions and donations	0	35,391	0	0	0
Interest	(4,826)	2,875	5,674	12,828	0
Miscellaneous	224,424	233,976	171,387	181,373	188,000
Total Revenues	<u>\$2,124,086</u>	<u>\$2,410,042</u>	<u>\$2,448,274</u>	<u>\$2,786,638</u>	<u>\$2,659,861</u>
Expenditures					
Current:					
General government	\$514,890	\$475,072	\$566,681	\$521,200	\$584,851
Public safety	1,114,839	1,159,668	1,234,453	1,264,240	1,250,570
Public works	585,514	464,012	490,199	550,805	542,750
Library	52,351	64,964	61,051	0	0
Culture and recreation	0	0	0	49,297	61,096
Capital outlay	29,107	362,422	21,410	57,486	130,000
Debt service	21,692	13,610	13,230	12,850	13,904
Total Expenditures	<u>\$2,318,393</u>	<u>\$2,539,748</u>	<u>\$2,387,024</u>	<u>\$2,455,878</u>	<u>\$2,583,171</u>
Excess of revenues over (under) expenditures	<u>(\$194,307)</u>	<u>(\$129,706)</u>	<u>\$61,250</u>	<u>\$330,760</u>	<u>\$76,690</u>
Other Financing Sources (Uses)					
Proceeds from sale of capital assets	\$9,000	\$0	\$0	\$1,366	\$0
Bonds issued	242,047	0	0	0	0
Bond premium	13,898	0	0	0	0
Transfers in	78,000	78,000	172,032	78,000	78,000
Transfers (out)	(120,082)	(158,200)	(161,960)	(161,425)	(154,690)
Total Other Financing Sources (Uses)	<u>(\$42,082)</u>	<u>(\$80,200)</u>	<u>\$10,072</u>	<u>(\$83,425)</u>	
Net changes in Fund Balances	<u>\$28,556</u>	<u>(\$209,906)</u>	<u>\$71,322</u>	<u>\$248,701</u>	<u>\$0</u>
General Fund Balance January 1	\$393,269	\$421,825	\$211,919	\$283,241	
Residual Equity Transfer in (out)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	
General Fund Balance December 31	<u>\$421,825</u>	<u>\$211,919</u>	<u>\$283,241</u>	<u>\$531,942</u>	
DETAILS OF DECEMBER 31 FUND BALANCE					
Nonspendable	\$20,569	\$20,158	\$19,440	\$15,214	
Assigned	343,132	120,268	29,177	87,175	
Restricted	0	0	128,418	0	
Unassigned	58,124	71,493	106,206	429,553	
Total	<u><u>\$421,825</u></u>	<u><u>\$211,919</u></u>	<u><u>\$283,241</u></u>	<u><u>\$531,942</u></u>	

¹ The 2025 budget was adopted on December 2, 2024.

GENERAL INFORMATION

LOCATION

The City, with a 2020 U.S. Census population of 2,168 and a current population of 2,231, comprising an area of two square miles, is located approximately 123 miles north of St. Paul, Minnesota.

LARGER EMPLOYERS¹

Larger employers in the City include the following:

Firm	Type of Business/Product	Estimated No. of Employees
Riverwood Healthcare Center	Hospital	439
Aitkin County	County government and services	280
I.S.D. No. 1 (Aitkin Public Schools)	Elementary and secondary education	232 ²
Aicota Health Care Center	Nursing home	155
Paulbeck's County Market	Grocery store	100
BlueLinx	Building materials-wholesale	80
Elemet Manufacturing ³	Contract manufacturing	75
Aitkin Health Services	Senior living and care services	61
McDonald's	Restaurant	48
The City	Municipal government and services	17

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

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

² Total number of employees of the entire district, including those outside City limits.

³ Previously listed as Aitkin Iron Works.

BUILDING PERMITS (as of November 13, 2025)

	2021	2022	2023	2024	2025
<u>New Single Family Homes</u>					
No. of building permits	4	4	5	11	3
Valuation	\$406,068	\$575,000	\$588,699	\$1,314,720	\$690,763
<u>New Multiple Family Buildings</u>					
No. of building permits	0	0	0	0	3
Valuation	\$0	\$0	\$0	\$0	\$6,513,220
<u>New Commercial/Industrial</u>					
No. of building permits	1	0	4	0	0
Valuation	\$77,280	\$0	\$616,743	\$0	\$0
<u>All Building Permits</u> (including additions and remodelings)					
No. of building permits	87	112	106	165	117
Valuation	\$3,627,198	\$49,282,252	\$10,948,778	\$4,659,518	\$20,413,286

Source: The City.

U.S. CENSUS DATA**Population Trend:** The City

2010 U.S. Census population	2,165
2020 U.S. Census population	2,168
Percent of Change 2010 - 2020	0.14%
2024 State Demographer Population Estimate	2,231

Income and Age Statistics

	The City	Aitkin County	State of Minnesota	United States
2023 per capita income	\$25,091	\$35,185	\$46,957	\$43,289
2023 median household income	\$45,813	\$59,498	\$87,556	\$78,538
2023 median family income	\$66,528	\$76,311	\$111,492	\$96,922
2023 median gross rent	\$657	\$912	\$1,235	\$1,348
2023 median value owner occupied units	\$172,800	\$235,100	\$305,500	\$303,400
2023 median age	47.3 yrs.	56.5 yrs.	38.6 yrs.	38.7 yrs.

	State of Minnesota	United States
City % of 2023 per capita income	53.43%	57.96%
City % of 2023 median family income	59.67%	68.64%

Housing Statistics

	<u>The City</u>		
	2020	2024	Percent of Change
All Housing Units	967	1,004	3.83%

Source: 2010 and 2020 Census of Population and Housing, and 2023 American Community Survey (Based on a five-year estimate), U.S. Census Bureau (<https://data.census.gov>), and Minnesota State Demographer (<https://mn.gov/admin/demography/data-by-topic/population-data/our-estimates/>).

EMPLOYMENT/UNEMPLOYMENT DATA

Rates are not compiled for individual communities within counties.

Year	<u>Average Employment</u>	<u>Average Unemployment</u>	
	Aitkin County	Aitkin County	State of Minnesota
2021	6,500	5.4%	3.7%
2022	6,575	4.6%	2.5%
2023	6,671	5.1%	2.8%
2024	6,722	5.2%	3.0%
2025, August	6,808	5.6%	4.2%

Source: Minnesota Department of Employment and Economic Development.

FINANCIAL STATEMENTS OF THE CITY

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

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

CITY OF AITKIN, MINNESOTA
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
YEAR ENDED DECEMBER 31, 2024



CPAs | CONSULTANTS | WEALTH ADVISORS

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INTRODUCTORY SECTION

**CITY OF AITKIN, MINNESOTA
PRINCIPAL CITY OFFICIALS
DECEMBER 31, 2024**

ELECTED OFFICIALS

Position	Term Expires	Name
Mayor	12/31/2024	Gary Tibbitts
Council Member	12/31/2024	Katherine Galliger
Council Member	12/31/2026	Julie Miller
Council Member	12/31/2024	Jason Henke
Council Member	12/31/2026	Chris Dotzler

APPOINTED OFFICIALS

Position	Name
City Administrator	Jen Thompson

FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

Honorable Mayor and
Members of the City Council
City of Aitkin
Aitkin, Minnesota

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Aitkin (the City), Minnesota, as of and for the year ended December 31, 2024, 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, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City, as of December 31, 2024, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, 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.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 GAAS 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 GAAS and *Government Auditing Standards*, we:

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of changes in the net pension liability (asset) and related ratios – Aitkin fire relief association, schedule of the City and Utility's proportionate share of the net pension liability, schedule of City and Utility contributions and budgetary comparison information be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, 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 opinions on the financial statements that collectively comprise the City's basic financial statements. The combining balance sheet – other governmental funds and combining statement of revenues, expenditures, and changes in fund balances – other governmental funds are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates 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 GAAS. In our opinion, the combining balance sheet – other governmental funds and combining statement of revenues, expenditures, and changes in fund balances – other governmental funds are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

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

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

Honorable Mayor and
Members of the City Council
City of Aitkin

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 6, 2025, 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.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Brainerd, Minnesota
May 6, 2025

**CITY OF AITKIN, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2024**

This section of the City of Aitkin's (the City) annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year that ended December 31, 2024. The Management's Discussion and Analysis (MD&A) is an element of the Required Supplementary Information as specified by U.S. Generally Accepted Accounting Principles (GAAP). Certain comparative information between the current year, 2024, and the prior year, 2023, is also presented in the MD&A.

FINANCIAL HIGHLIGHTS

- ◆ The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows at the close of the fiscal year by \$15,443,148 (net position).
- ◆ The City's total net position increased during the fiscal year by \$1,847,920.
- ◆ As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$5,784,593, an increase of \$837,908 in comparison with the prior year. Of the total amount, \$1,799,265 is available for spending at the City's discretion (unassigned/assigned fund balance). However, \$87,175 of the General Fund balance has been assigned for compensated absences, \$1,027,195 of the Capital Improvement Project Fund balance has been assigned for future capital outlay needs and \$255,513 of the Park Improvement Projects Fund balance has been assigned for future capital outlay needs.
- ◆ The General Fund unassigned/assigned fund balance was \$516,728 or 21% of the total General Fund expenditures for 2024.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, 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 between the four 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).

**CITY OF AITKIN, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2024**

OVERVIEW OF THE FINANCIAL STATEMENTS

Government-Wide Financial Statements (Continued)

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (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, culture and recreation and economic development. The business-type activities of the City include the liquor operations.

The government-wide financial statements include not only the City itself (known as the primary government), but also a public utility and an airport commission for which the City is financially accountable. Financial information for these component units are discretely presented in a separate column adjacent to the financial information presented for the primary government.

Fund Financial Statements

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

Governmental Funds – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a City'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 City'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 five major 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, Fire Fund, Utility Replacement Fund, Capital Improvement Projects Fund, Park Improvement Projects Fund, all of which are considered to be major funds. Data from the other governmental funds are combined into a single aggregated presentation. Individual fund data for the other nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for its General Fund and the Fire Fund. Budgetary comparison statements have been provided for these funds to demonstrate compliance with this budget.

**CITY OF AITKIN, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2024**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Fund Financial Statements (Continued)

Proprietary Fund – The City maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses an enterprise fund to account for its liquor operations.

The proprietary fund provides the same type of information as the government-wide financial statements, only in more detail.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Position

As noted earlier, net position may serve over time as a useful indicator of a City's financial position. In the case of the City, assets and deferred outflows exceeded liabilities and deferred inflows by \$15,443,148 at the close of the most recent fiscal year.

By far, the largest portion of the City's net position (72%) reflects its investment in capital assets (e.g., land, buildings, machinery and equipment); less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

	Net Position				
	Governmental Activities		Business-Type Activities		2024
	2024	2023	2024	2023	Total
Current and Other Assets	\$ 6,201,218	\$ 5,506,536	\$ 529,772	\$ 558,709	\$ 6,730,990
Capital Assets	14,293,251	13,803,593	108,459	98,903	14,401,710
Total Assets	20,494,469	19,310,129	638,231	657,612	21,132,700
Deferred Outflows of Resources	1,053,736	1,267,672	13,022	29,887	1,066,758
Long-Term Liabilities Outstanding	5,023,078	5,665,843	63,367	95,372	5,086,445
Other Liabilities	288,900	516,152	41,652	92,684	330,552
Total Liabilities	5,311,978	6,181,995	105,019	188,056	5,416,997
Deferred Inflows of Resources	1,204,658	1,161,819	134,655	138,202	1,339,313
Net Position					
Net Investment in Capital Assets	10,777,237	9,951,837	108,459	98,903	10,885,696
Restricted	4,104,950	3,823,564	-	-	4,104,950
Unrestricted	149,382	(541,414)	303,120	262,338	452,502
Total Net Position	\$ 15,031,569	\$ 13,233,987	\$ 411,579	\$ 361,241	\$ 15,443,148

There was an increase of \$1,797,582 and an increase of \$50,338 in net position reported in connection with the City's governmental activities and business-type activities, respectively.

**CITY OF AITKIN, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2024**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

Change in Net Position

The City's total net position increased by \$1,847,920. Key elements of this increase are as follows:

	Change in Net Position				
	Governmental Activities		Business-Type Activities		2024
	2024	2023	2024	2023	Total
REVENUES					
Program Revenues					
Charges for Services	\$ 384,155	\$ 425,161	\$ 1,495,255	\$ 1,573,192	\$ 1,879,410
Operating Grants and Contributions	524,762	268,999	2,915	-	527,677
Capital Grants and Contributions	158,320	55,044	14,184	-	172,504
General Revenues					
Property Taxes	1,693,257	1,640,881	-	-	1,693,257
Intergovernmental	1,505,067	1,050,894	-	-	1,505,067
Unrestricted Investment Earnings (Loss)	164,459	147,744	1,056	1,036	165,515
Gain on Sale of Capital Assets	1,366	35,033	-	-	1,366
Capital Contributions	-	406,902	-	-	-
Lease Revenue	-	-	23,102	23,584	23,102
Miscellaneous	548,273	356,188	-	238	548,273
Total Revenues	4,979,659	4,386,846	1,536,512	1,598,050	6,516,171
EXPENSES					
General Government	539,180	544,659	-	-	539,180
Public Safety	1,640,102	1,680,745	-	-	1,640,102
Public Works	746,053	854,364	-	-	746,053
Culture and Recreation	196,269	196,219	-	-	196,269
Economic Development	80,728	78,810	-	-	80,728
Interest on Long-Term Debt	57,745	75,585	-	-	57,745
Liquor Store	-	-	1,408,174	1,572,576	1,408,174
Total Expenses	3,260,077	3,430,382	1,408,174	1,572,576	4,668,251
CHANGE IN NET POSITION BEFORE TRANSFERS	1,719,582	956,464	128,338	25,474	1,847,920
Transfers	78,000	78,000	(78,000)	(78,000)	-
CHANGE IN NET POSITION	1,797,582	1,034,464	50,338	(52,526)	1,847,920
Net Position - Beginning of Year	13,233,987	12,199,523	361,241	413,767	13,595,228
NET POSITION - END OF YEAR	<u>\$ 15,031,569</u>	<u>\$ 13,233,987</u>	<u>\$ 411,579</u>	<u>\$ 361,241</u>	<u>\$ 15,443,148</u>

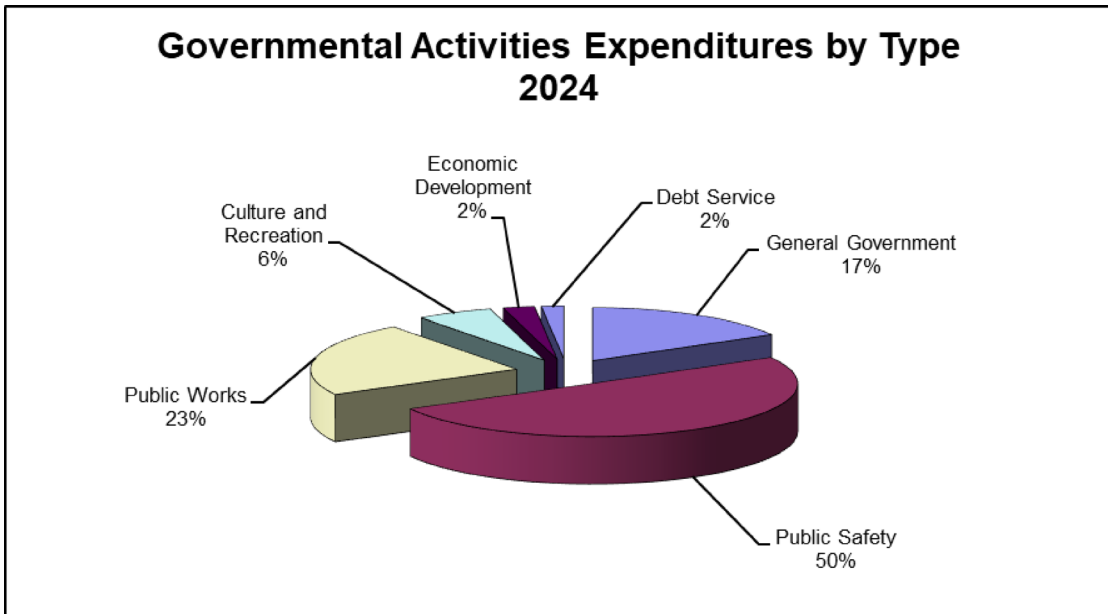
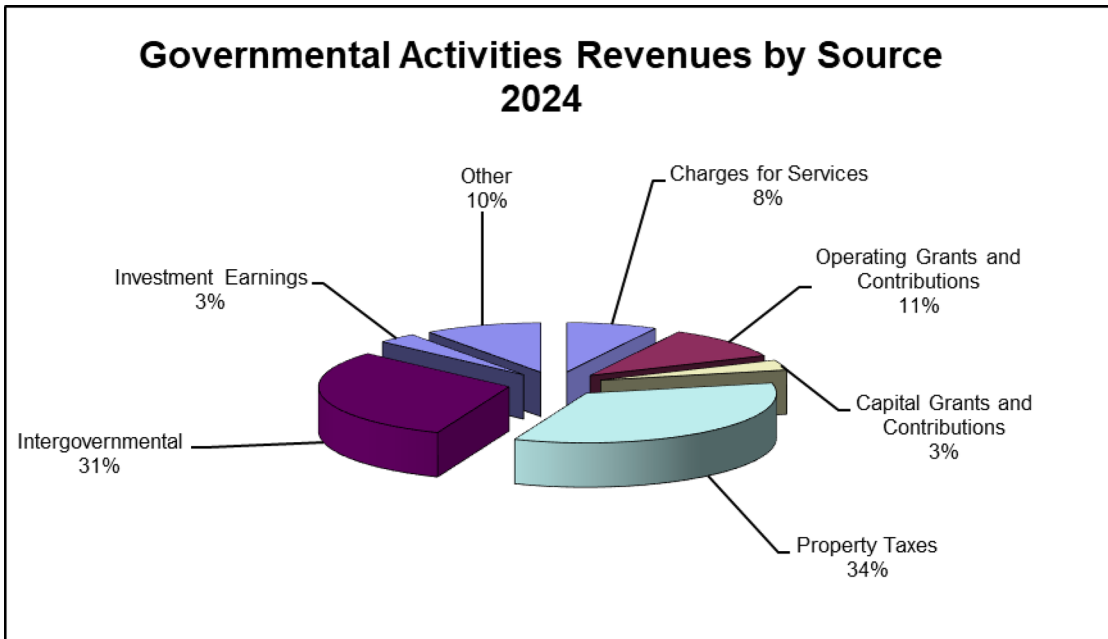
Capital contributions increased due to the City receiving capital funding for a shared project with the County. Property taxes increased due to an increase in the levy. Intergovernmental revenues increased due to an increase in funding. Expenses remained consistent year over year for governmental and business-type activities.

**CITY OF AITKIN, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2024**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

Change in Net Position (Continued)

Governmental Activities – Governmental activities increased the City's net position by \$1,797,582 in 2024 as compared to an increase of \$1,034,464 in 2023.

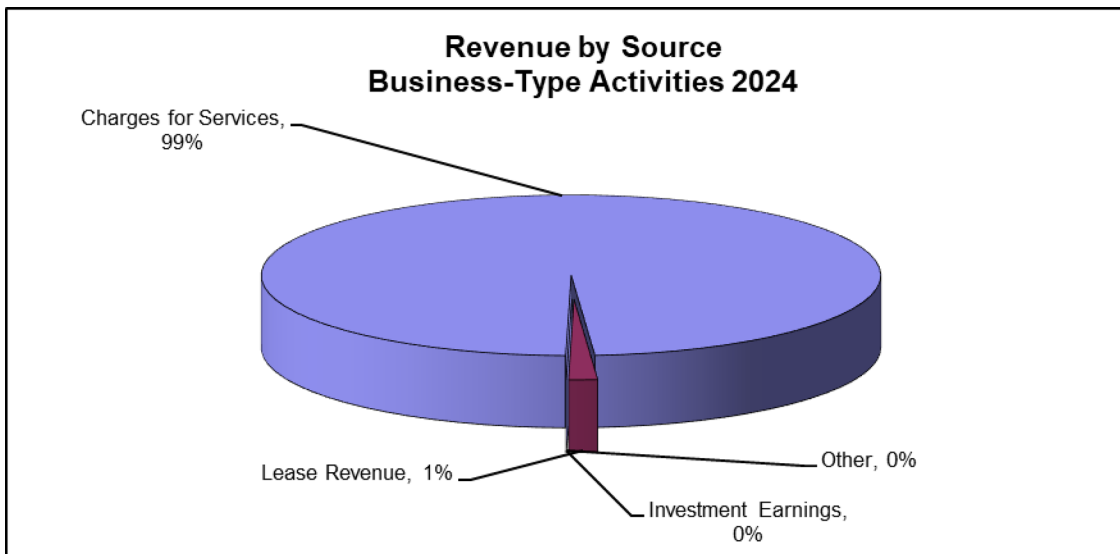
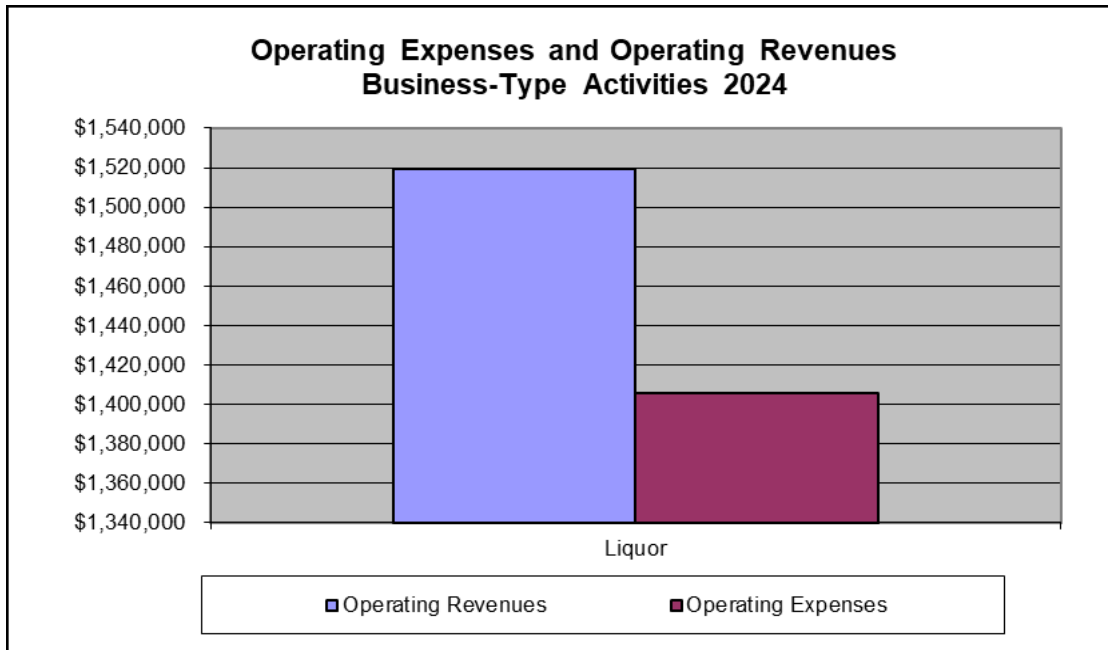


**CITY OF AITKIN, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2024**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

Change in Net Position (Continued)

Business-Type Activities – Business-type activities increased the City's net position by \$50,338 in 2024 as compared to the \$52,526 decrease in 2023.



**CITY OF AITKIN, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2024**

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with the finance-related legal requirements and to provide distinct, separate accounting for certain funds at the direction of the City Council.

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/assigned fund balances may serve as a useful measure of a City's net resources available for spending at the end of the fiscal year. As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$5,784,593 an increase of \$837,908 in comparison with the prior year. Of this amount \$1,799,265 is unassigned/assigned, which is available for spending at the City's discretion. A portion of fund balance is restricted to indicate that it is not available for new spending because it has already been restricted by contractual or legal agreements with outside parties related to 2024 (\$3,967,305). In addition, a portion of unassigned/assigned fund balance has been assigned by the City Council for future years' capital outlay and compensated absences (\$1,369,883).

The General Fund is the primary operating fund of the City. At the end of the current year, unassigned/assigned fund balance of the General Fund was \$516,728. Total fund balance was \$531,942. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned/assigned fund balance and total fund balance to total fund expenditures. Unassigned/assigned fund balance and total fund balance represent 21% and 22% of total 2024 General Fund expenditures, respectively.

The fund balance of the City's General Fund increased by \$248,701, during the current fiscal year. This is primarily due to an increase in taxes due to an increase in the levy.

The fund balance of the City's Fire Fund increased by \$290,138, during the current fiscal year. This is primarily due an increase in interest income due to a change in the market, an increase in fire contract revenues and an increase in contributions and donations.

The fund balance of the City's Utility Replacement Fund decreased by \$67,768, during the current fiscal year. This is primarily due to two new capital projects being started in the current year.

The fund balance of the City's Capital Improvement Projects Fund increased by \$183,946, during the current fiscal year. This is primarily due to minimal expenditures in the current year.

The fund balance of the City's Park Improvement Projects Fund increased by \$140,895, during the current fiscal year. The increase was due to an increase in intergovernmental revenues received.

Proprietary Funds – The City's proprietary funds provide the same type of information found in the business activities portion of the financial statements, but in more detail.

Net position in the Municipal Liquor Store Fund increased \$50,338 compared to a decrease of \$52,526 in the prior year. This is primarily due to a decrease in cost of sales.

**CITY OF AITKIN, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2024**

GENERAL FUND BUDGETARY HIGHLIGHTS

There were no budget revisions during the year.

Revenues were over budget by \$153,606, due to additional building permits issued during the year along with an increase in intergovernmental revenues. Expenditures were under budget by \$77,729, mostly due to expenditures related to wages and salaries for general government.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The City's investment in capital assets for its governmental and business-type activities as of December 31, 2024, amounts to \$14,401,710 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, roads, bridges, and other infrastructure.

Capital Assets (Net of Depreciation/Amortization)

	Governmental Activities		Business-Type Activities		2024
	2024	2023	2024	2023	Total
Land	\$ 146,907	\$ 206,907	\$ 24,889	\$ 24,889	\$ 171,796
Construction in Progress	1,236,338	336,298	-	-	1,236,338
Buildings	2,172,462	2,199,645	65,736	55,264	2,238,198
Improvements Other than Buildings	1,242,167	1,355,219	17,743	17,743	1,259,910
Machinery and Equipment	-	-	91	1,007	91
Infrastructure	9,495,377	9,705,524	-	-	9,495,377
Total	<u>\$ 14,293,251</u>	<u>\$ 13,803,593</u>	<u>\$ 108,459</u>	<u>\$ 98,903</u>	<u>\$ 14,401,710</u>

Detailed information on the City's capital assets can be found in the Notes to the Financial Statements (3.A.4, Capital Assets).

**CITY OF AITKIN, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2024**

CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)

Long-Term Debt

Governmental Activities – At the end of the current fiscal year, the City's governmental activities had total debt outstanding of \$4,150,000. Of this amount, \$4,150,000 is debt for which the City is liable and which will be paid with taxes, pledged revenues from the public utility and special assessments.

Governmental Activities Outstanding Long-Term Debt		
	2024	2023
General Obligation Bonds	\$ 1,964,000	\$ 2,205,000
Revenue Bonds and Loans	2,186,000	2,343,000
Total	<u>\$ 4,150,000</u>	<u>\$ 4,548,000</u>

Detailed information on the City's long term debt can be found in the Notes to the Financial Statements (3.B.1, Long Term Debt).

The City's total governmental activities debt decreased by \$398,000 during the current fiscal year. This was due to payments made on outstanding debt.

Business-Type Activities – At the end of the current fiscal year, the business-type activities had no long-term debt.

Component Unit – At the end of the current fiscal year, the Aitkin Public Utility Commission debt increased by \$19,449. This is due to payments made on lease liabilities offset by new leases issued.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- ◆ As we evaluate the 2024 audit, we remain mindful of the economic conditions influencing our financial outlook. The 7.5% levy increase and strategic debt retirement in 2024 have strengthened the City's financial foundation. As we manage the 2025 budget and begin preparing for 2026, we will remain focused on fiscal responsibility—working diligently within current constraints while strategically and thoughtfully planning for future needs. This includes prioritizing necessary infrastructure improvements and maintaining a forward-looking approach that positions the City for long-term stability. We also remain committed to pursuing state and federal funding opportunities to help support these efforts and ease the burden on local taxpayers.

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 Aitkin, 130 Southgate Drive – Suite 200.

BASIC FINANCIAL STATEMENTS

CITY OF AITKIN, MINNESOTA
STATEMENT OF NET POSITION
DECEMBER 31, 2024

	Primary Government			Component Unit	
	Governmental Activities	Business-Type Activities	Total	Aitkin Public Utilities	Aitkin Airport Commission
ASSETS					
Cash and Investments	\$ 5,709,520	\$ 263,964	\$ 5,973,484	\$ 8,186,415	\$ 30,823
Receivables:					
Taxes	170,108	-	170,108	-	1,322
Accounts, Net	33,086	124	33,210	746,357	60,092
Special Assessments	272	-	272	-	-
Loans Receivable	48,946	-	48,946	-	-
Leases Receivable	-	86,846	86,846	-	115,630
Due from Component Units	72,706	-	72,706	-	-
Inventory	-	176,078	176,078	-	-
Prepays	18,023	2,760	20,783	6,066	1,129
Supplies	-	-	-	231,012	-
Net Pension Asset	148,557	-	148,557	-	-
Capital Assets:					
Land and Construction In Progress	1,383,245	24,889	1,408,134	648,836	892,710
Other Capital Assets, Net of Depreciation/Amortization	12,910,006	83,570	12,993,576	3,532,273	1,883,411
Total Assets	20,494,469	638,231	21,132,700	13,350,959	2,985,117
DEFERRED OUTFLOWS OF RESOURCES					
Pension Related	1,053,427	12,993	1,066,420	63,322	-
OPEB Related	309	29	338	-	-
Total Deferred Outflows	1,053,736	13,022	1,066,758	63,322	-
LIABILITIES					
Current Liabilities:					
Accounts and Contracts Payable	103,971	18,751	122,722	261,184	124,909
Accrued Liabilities	96,103	5,292	101,395	28,154	-
Accrued Interest Payable	24,699	-	24,699	-	-
Customer Deposits	-	-	-	93,408	-
Due to Primary Government	-	-	-	72,706	-
Long-Term Liabilities:					
Other Postemployment Benefits	64,127	5,962	70,089	-	-
Net Pension Liability	746,179	63,367	809,546	322,348	-
Due within One Year	362,000	-	362,000	13,758	1,930
Due in More than One Year	3,914,899	11,647	3,926,546	343,931	5,906
Total Liabilities	5,311,978	105,019	5,416,997	1,135,489	132,745
DEFERRED INFLOWS OF RESOURCES					
Pension Related	1,204,658	51,597	1,256,255	233,733	-
Lease Related	-	83,058	83,058	-	113,652
Total Deferred Inflows	1,204,658	134,655	1,339,313	233,733	113,652
NET POSITION					
Net Investment in Capital Assets	10,777,237	108,459	10,885,696	4,154,193	2,729,292
Restricted for:					
Fire Protection	1,786,282	-	1,786,282	-	-
Utility Replacement	1,167,109	-	1,167,109	-	-
Economic Development	789,646	-	789,646	-	-
Debt Service	213,356	-	213,356	-	-
Net Pension Asset	148,557	-	148,557	-	-
Conservation Improvement Program	-	-	-	155,159	-
Unrestricted	149,382	303,120	452,502	7,735,707	9,428
Total Net Position	\$ 15,031,569	\$ 411,579	\$ 15,443,148	\$ 12,045,059	\$ 2,738,720

See accompanying Notes to Financial Statements.

**CITY OF AITKIN, MINNESOTA
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2024**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities:				
General Government	\$ 539,180	\$ 143,967	\$ 1,258	\$ 24,466
Public Safety	1,640,102	235,885	330,347	-
Public Works	746,053	4,303	9,232	131,337
Culture and Recreation	196,269	-	183,925	2,517
Economic Development	80,728	-	-	-
Interest on Long-Term Debt	57,745	-	-	-
Total Governmental Activities	3,260,077	384,155	524,762	158,320
Business-Type Activities:				
Liquor Store	1,408,174	1,495,255	2,915	14,184
Total Primary Government	<u>\$ 4,668,251</u>	<u>\$ 1,879,410</u>	<u>\$ 527,677</u>	<u>\$ 172,504</u>
Component Units:				
Aitkin Public Utility Commission	\$ 5,310,440	\$ 6,267,509	\$ -	\$ -
Aitkin Airport Commission	200,130	-	546,205	-
Total Component Units	<u>\$ 5,510,570</u>	<u>\$ 6,267,509</u>	<u>\$ 546,205</u>	<u>\$ -</u>
General Revenues:				
Taxes:				
Property Taxes, Levied for General Purpose				
Grants and contributions not restricted to specific programs				
Intergovernmental Revenues				
Investment Earnings				
Gain on Sale of Capital Assets				
Miscellaneous				
Transfers				
Total General Revenues				
Change in Net Position				
Net Position - Beginning of Year				
Net Position - End of Year				

See accompanying Notes to Financial Statements.

CITY OF AITKIN, MINNESOTA
STATEMENT OF ACTIVITIES (CONTINUED)
YEAR ENDED DECEMBER 31, 2024

Net (Expense) Revenue and Changes in Net Position				
Primary Government			Component Unit	
Governmental Activities	Business-Type Activities	Total	Aitkin Public Utility Commission	Aitkin Airport Commission
\$ (369,489)	\$ -	\$ (369,489)	\$ -	\$ -
(1,073,870)	-	(1,073,870)	-	-
(601,181)	-	(601,181)	-	-
(9,827)	-	(9,827)	-	-
(80,728)	-	(80,728)	-	-
(57,745)	-	(57,745)	-	-
(2,192,840)	-	(2,192,840)	-	-
-	104,180	104,180	-	-
(2,192,840)	104,180	(2,088,660)	-	-
-	-	-	957,069	-
-	-	-	-	346,075
-	-	-	957,069	346,075
1,693,257	-	1,693,257	-	15,011
1,505,067	-	1,505,067	-	-
-	-	-	14,831	-
164,459	1,056	165,515	177,183	795
1,366	-	1,366	-	-
548,273	23,102	571,375	-	19,727
78,000	(78,000)	-	-	-
3,990,422	(53,842)	3,936,580	192,014	35,533
1,797,582	50,338	1,847,920	1,149,083	381,608
13,233,987	361,241	13,595,228	10,895,976	2,357,112
<u>\$ 15,031,569</u>	<u>\$ 411,579</u>	<u>\$ 15,443,148</u>	<u>\$ 12,045,059</u>	<u>\$ 2,738,720</u>

See accompanying Notes to Financial Statements.

CITY OF AITKIN, MINNESOTA
BALANCE SHEET – GOVERNMENTAL FUNDS
DECEMBER 31, 2024

	General Fund	Fire Fund	Utility Replacement Fund	Capital Improvement Projects Fund	Park Improvement Projects Fund	Other Governmental Funds	Total Governmental Funds
ASSETS							
Cash and Investments	\$ 537,374	\$ 1,768,583	\$ 1,071,045	\$ 1,020,298	\$ 316,024	\$ 996,196	\$ 5,709,520
Receivables:							
Taxes	122,866	4,492	23,358	11,459	7,933	-	170,108
Special Assessments	-	-	-	272	-	-	272
Loans	-	-	-	-	-	48,946	48,946
Accounts	14,436	14,903	-	-	3,747	-	33,086
Due from Other Funds	171	-	-	-	-	-	171
Due from Component Unit	-	-	72,706	-	-	-	72,706
Prepays	15,214	2,699	-	-	110	-	18,023
Total Assets	<u>\$ 690,061</u>	<u>\$ 1,790,677</u>	<u>\$ 1,167,109</u>	<u>\$ 1,032,029</u>	<u>\$ 327,814</u>	<u>\$ 1,045,142</u>	<u>\$ 6,052,832</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES							
Liabilities:							
Accounts and Contracts Payable	\$ 13,102	\$ 4,395	\$ -	\$ -	\$ 69,033	\$ 17,441	\$ 103,971
Accrued Liabilities	96,103	-	-	-	-	-	96,103
Due to Other Funds	-	-	-	-	-	171	171
Total Liabilities	109,205	4,395	-	-	69,033	17,612	200,245
Deferred Inflows of Resources:							
Unavailable Revenue on Property Taxes	48,914	1,789	9,299	4,562	3,158	-	67,722
Unavailable Revenue on Special Assessments	-	-	-	272	-	-	272
Total Deferred Inflows of Resources	48,914	1,789	9,299	4,834	3,158	-	67,994
Fund Balances:							
Nonspendable for:							
Prepays	15,214	2,699	-	-	110	-	18,023
Restricted for:							
Debt Service	-	-	-	-	-	238,055	238,055
Economic Development	-	-	-	-	-	789,646	789,646
Fire Protection	-	1,781,794	-	-	-	-	1,781,794
Utility Replacement	-	-	1,157,810	-	-	-	1,157,810
Assigned for:							
Capital Outlay	-	-	-	1,027,195	255,513	-	1,282,708
Compensated Absences	87,175	-	-	-	-	-	87,175
Unassigned	429,553	-	-	-	-	(171)	429,382
Total Fund Balances	<u>531,942</u>	<u>1,784,493</u>	<u>1,157,810</u>	<u>1,027,195</u>	<u>255,623</u>	<u>1,027,530</u>	<u>5,784,593</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 690,061</u>	<u>\$ 1,790,677</u>	<u>\$ 1,167,109</u>	<u>\$ 1,032,029</u>	<u>\$ 327,814</u>	<u>\$ 1,045,142</u>	<u>\$ 6,052,832</u>

See accompanying Notes to Financial Statements.

CITY OF AITKIN, MINNESOTA
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION – GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2024

TOTAL FUND BALANCES FOR GOVERNMENTAL FUNDS **\$ 5,784,593**

Total net position reported for governmental activities in the Statement of Net Position is different because:

Capital assets used in governmental funds are not financial resources and, therefore, are not reported in the funds. Those assets consist of:

Capital Assets, Not Being Depreciated	\$ 1,383,245	
Capital Assets, Being Depreciated	18,277,438	
Accumulated Depreciation	<u>(5,367,432)</u>	14,293,251

Some of the City's property taxes and special assessments will be collected after year-end, but are not available soon enough to pay for the current-period's expenditures and, therefore, are reported as unavailable revenue in the governmental funds. 67,994

Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. Accrued interest for general obligation bonds is included in the Statement of Net Position. (24,699)

Net pension liability and related deferred inflows and outflows of resources are recorded only on the Statement of Net Position. Balances at year-end are:

Net Pension Asset	148,557	
Net Pension Liability	(746,179)	
Deferred Inflows of Resources - Pension Related	(1,204,658)	
Deferred Outflows of Resources - Pension Related	<u>1,053,427</u>	(748,853)

OPEB deferred outflows are reported only on the statement of net position.

OPEB Liability	(64,127)	
Deferred Outflows of Resources - OPEB Related	<u>309</u>	(63,818)

Long-term liabilities that pertain to governmental funds, including bonds payable, are not due and payable in the current period and, therefore, are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the Statement of Net Position.

Bonds Payable	(4,150,000)	
Unamortized Discounts/ Premiums	(39,724)	
Compensated Absences Payable	<u>(87,175)</u>	<u>(4,276,899)</u>

TOTAL NET POSITION OF GOVERNMENTAL ACTIVITIES **\$ 15,031,569**

CITY OF AITKIN, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES – GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2024

	General Fund	Fire Fund	Utility Replacement Fund	Capital Improvement Projects Fund	Park Improvement Projects Fund	Other Governmental Funds	Total Governmental Funds
REVENUES							
Taxes	\$ 1,443,256	\$ 50,968	\$ 265,015	\$ 130,012	\$ 90,006	\$ -	\$ 1,979,257
Tax Increments	-	-	-	-	-	18,167	18,167
Licenses and Permits	80,759	-	-	-	-	-	80,759
Intergovernmental	1,041,570	975	-	84,725	559,972	-	1,687,242
Charges for Services	8,592	214,333	-	-	-	-	222,925
Fines and Forfeits	18,260	-	-	-	-	-	18,260
Special Assessments	-	-	-	5,631	-	-	5,631
Interest	12,828	76,161	7,657	44,980	172	22,661	164,459
Miscellaneous	181,373	201,000	365,978	-	2,517	26,494	777,362
Total Revenues	2,786,638	543,437	638,650	265,348	652,667	67,322	4,954,062
EXPENDITURES							
Current:							
General Government	521,200	-	-	-	683	-	521,883
Public Safety	1,264,240	241,082	-	-	-	-	1,505,322
Public Works	550,805	-	587	-	-	-	551,392
Culture and Recreation	49,297	-	-	-	51,915	-	101,212
Economic Development	-	-	-	-	-	66,952	66,952
Capital Outlay	57,486	12,217	454,017	627	458,414	-	982,761
Debt Service:							
Principal Retirement	10,000	-	-	-	-	388,000	398,000
Interest and Fiscal Charges	2,850	-	-	-	760	64,388	67,998
Total Expenditures	2,455,878	253,299	454,604	627	511,772	519,340	4,195,520
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	330,760	290,138	184,046	264,721	140,895	(452,018)	758,542
OTHER FINANCING SOURCES (USES)							
Proceeds from Sale of Capital Assets	1,366	-	-	-	-	-	1,366
Transfers In	78,000	-	85,000	-	-	494,014	657,014
Transfers Out	(161,425)	-	(336,814)	(80,775)	-	-	(579,014)
Total Other Financing Sources (Uses)	(82,059)	-	(251,814)	(80,775)	-	494,014	79,366
NET CHANGE IN FUND BALANCES	248,701	290,138	(67,768)	183,946	140,895	41,996	837,908
Fund Balances - Beginning of Year	283,241	1,494,355	1,225,578	843,249	114,728	985,534	4,946,685
FUND BALANCES - END OF YEAR	<u>\$ 531,942</u>	<u>\$ 1,784,493</u>	<u>\$ 1,157,810</u>	<u>\$ 1,027,195</u>	<u>\$ 255,623</u>	<u>\$ 1,027,530</u>	<u>\$ 5,784,593</u>

See accompanying Notes to Financial Statements.

CITY OF AITKIN, MINNESOTA
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES – GOVERNMENTAL ACTIVITIES
YEAR ENDED DECEMBER 31, 2024

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS **\$ 837,908**

Amounts reported for governmental activities in the Statement of Activities are

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, assets are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlay	\$ 974,959	
Disposal of Capital Assets - Net Book Value	(60,000)	
Depreciation Expense	<u>(425,301)</u>	489,658

The governmental funds report bond proceeds as financing sources, while repayment of bond principal is reported as an expenditure. In the Statement of Net Position, however, issuing debt increases long-term liabilities and does not affect the Statement of Activities and repayment of principal reduces the liability. Also, governmental funds report the effect of premiums and discounts when debt is first issued, whereas these amounts are amortized in the Statement of Activities. Interest is recognized as an expenditure in the governmental funds when it is due. In the Statement of Activities, however, interest expense is recognized as it accrues, regardless of when it is due. The net effect of these differences is the treatment of general obligation bonds and related items is as follows:

Payment of Bond Principal	398,000	
Change in Accrued Interest Expense for General Obligation Bonds	2,854	
Amortization of Bond Premium	<u>7,399</u>	408,253

Payment of OPEB benefits are recognized as expenditures at the fund level while the change in the net OPEB obligation is recognized in the Statement of Net Position. (63,818)

Pension expenditures on the governmental funds are measured by current year employee contributions. Pension expenses on the Statement of Activities are measure by the change in net pension liability and the related deferred inflows and outflows of resources. 122,302

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.

Change in Compensated Absences	766
--------------------------------	-----

Delinquent property taxes and special assessments receivable will be collected subsequent to year-end, but are not available soon enough to pay for the current-period's expenditures and, therefore, are unavailable in the governmental funds.

Unavailable Revenue - December 31, 2023	(65,481)	
Unavailable Revenue - December 31, 2024	<u>67,994</u>	<u>2,513</u>

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES **\$ 1,797,582**

CITY OF AITKIN, MINNESOTA
STATEMENT OF NET POSITION – PROPRIETARY FUND
DECEMBER 31, 2024

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

CURRENT ASSETS

Cash and Cash Equivalents	\$ 263,964
Receivables	
Accounts Receivable	124
Lease Receivable	86,846
Inventory	176,078
Prepays	2,760
	<hr/>
Total Current Assets	529,772

NONCURRENT ASSETS

Capital Assets:	
Land	24,889
Building and Improvements	390,632
Machinery and Equipment	127,384
Subtotal Capital Assets	<hr/> 542,905
Less: Accumulated Depreciation	(434,446)
Net Capital Assets	<hr/> 108,459
Total Noncurrent Assets	<hr/> 108,459
	<hr/>
Total Assets	638,231

DEFERRED OUTFLOWS OF RESOURCES

Pension Related	12,993
OPEB Related	29
	<hr/>
Total Deferred Outflows of Resources	13,022
	<hr/>
Total Assets and Deferred Outflows of Resources	<hr/> \$ 651,253

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

CURRENT LIABILITIES

Accounts Payable	\$ 18,751
Accrued Liabilities	5,292
Other Postemployment Benefits Payable	5,962
	<hr/>
Total Current Liabilities	30,005

LONG-TERM LIABILITIES

Net Pension Liability	63,367
Compensated Absences	11,647
	<hr/>
Total Long-Term Liabilities	75,014

DEFERRED INFLOWS OF RESOURCES

Pension Related	51,597
Lease Related	83,058
	<hr/>
Total Deferred Inflows of Resources	134,655

NET POSITION

Net Investment in Capital Assets	108,459
Unrestricted	303,120
	<hr/>
Total Net Position	411,579
	<hr/>
Total Liabilities, Deferred Inflows of Resources, and Net Position	<hr/> \$ 651,253

See accompanying Notes to Financial Statements.

CITY OF AITKIN, MINNESOTA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
NET POSITION – PROPRIETARY FUND
YEAR ENDED DECEMBER 31, 2024

OPERATING REVENUES

Sales	\$ 1,495,255
Cost of Sales	(1,112,680)
Other Revenues	23,102
Total Gross Profit	<u>405,677</u>

OPERATING EXPENSES

Personal Services	165,039
Supplies	4,667
Other Services and Charges	116,354
Depreciation	9,434
Total Operating Expenses	<u>295,494</u>

OPERATING INCOME

110,183

NONOPERATING REVENUES (EXPENSES)

Intergovernmental	2,915
Investment Earnings	1,056
Sales and Use Tax	14,184
Total Nonoperating Revenues (Expenses)	<u>18,155</u>

INCOME BEFORE TRANSFERS

128,338

Transfers Out

(78,000)

CHANGE IN NET POSITION

50,338

Net Position - Beginning of Year

361,241

NET POSITION - END OF YEAR

\$ 411,579

See accompanying Notes to Financial Statements.

CITY OF AITKIN, MINNESOTA
STATEMENT OF CASH FLOWS – PROPRIETARY FUND
YEAR ENDED DECEMBER 31, 2024

CASH FLOWS FROM OPERATING ACTIVITIES

Cash Received from Customers	\$ 1,495,210
Cash Received from Other Sources	22,317
Cash Paid to Employees for Services	(147,671)
Cash Paid to Suppliers for Goods and Services	(1,309,901)
Net Cash Provided by Operating Activities	<u>59,955</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Transfers from (to) Other Funds	(78,000)
Interfund Borrowing	(19,500)
Net Cash Used by Noncapital Financing Activities	<u>(97,500)</u>

**CASH FLOWS FROM CAPITAL AND RELATED
FINANCING ACTIVITIES**

Acquisition and Construction of Capital Assets	(18,990)
Taxes and Special Assessments	14,184
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(4,806)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest Received	<u>1,056</u>
-------------------	--------------

NET INCREASE IN CASH AND CASH EQUIVALENTS

(41,295)

Cash and Cash Equivalents - Beginning of Year

305,259

CASH AND CASH EQUIVALENTS - END OF YEAR

\$ 263,964

**RECONCILIATION OF OPERATING INCOME TO
CASH FLOWS FROM OPERATING ACTIVITIES**

Operating Income	\$ 110,183
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	
Depreciation	9,434
(Increase) Decrease in Assets:	
Accounts Receivable	(45)
Deferred Outflows of Resources - Pension	16,894
Deferred Outflows of Resources - OPEB	(29)
Inventory	(11,164)
Prepays	(1,629)
Lease Receivable	19,980
Increase (Decrease) in Liabilities:	
Accounts Payable	(63,407)
Accrued Liabilities	(5,234)
Deferred Inflow - Leases	(20,765)
Accrued Compensated Absences	11,647
Deferred Inflows of Resources - Pension	17,218
Net Pension Liability	(29,090)
Other Postemployment Benefits Payable	5,962
Net Cash Provided by Operating Activities	<u><u>\$ 59,955</u></u>

See accompanying Notes to Financial Statements.

**CITY OF AITKIN, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

The City of Aitkin (the City) was incorporated under the laws of the state of Minnesota and operates under a Mayor-Council form of government. The accompanying financial statements present the government and three component units, entities for which the government is considered to be financially accountable, are significant because of its relationship with the City and/or the City has operational responsibility. Blended component units, although legally separate entities, are, in substance, part of the City's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City.

Blended Component Unit

The Economic Development Authority (EDA) services all the citizens of the City and is governed by a board comprised of two elected council members, one county commissioner, and two members of the Aitkin County Housing and Redevelopment Authority. The EDA is reported as a special revenue fund (Community Economic Development Fund) in the City's financial statements. The EDA does not issue separate financial statements.

Discretely Presented Component Units

The Aitkin Public Utilities Commission is responsible for providing electric, water and wastewater treatment to residents of the City. The Aitkin Public Utilities Commission is managed by a three-member board which is appointed by the City Council. The Aitkin Public Utilities Commission prepares separate financial statements which can be obtained at the Commission's administrative offices located at 120 First Street NW, Aitkin, MN 56431.

The Aitkin Airport Commission is responsible for providing airport services to the residents of Aitkin County. The Aitkin Airport Commission is governed by a five-member board which consists of two members appointed from the City and three members appointed from Aitkin County. The Aitkin Airport Commission does not prepare separate financial statements.

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 about the primary government and its component units. These statements include the financial activities of the overall City government. Eliminations have been made to minimize the double-counting of internal activities. 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 to external parties for support. Likewise, the primary government is reported separately from the legally separate component units for which the primary government is financially accountable.

**CITY OF AITKIN, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Government-Wide and Fund Financial Statements (Continued)

The statement of activities demonstrates the degree to which the direct expenses of each function of the City's governmental activities and different business-type activity are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. Program revenues include: (1) fees, fines, and charges paid by the recipients of goods, services, or privileges provided by a given function or activity; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or activity. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Separate financial statements are provided for governmental funds and the proprietary fund. The City has no fiduciary funds. Major individual governmental funds and the major individual enterprise fund are reported as separate columns in the fund financial statements.

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. 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. The City considers all revenues to be available if they are collected within 60 days after the end of the current period. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of general long-term debt and acquisitions under right-to-use leases are reported as other financing sources.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues in 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 government.

**CITY OF AITKIN, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting (Continued)

The City reports the following major governmental funds:

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

Fire Fund – The Fire Fund, a special revenue fund, accounts for fire contract revenue and taxes, that are restricted to be used for fire operations.

Utility Replacement Fund – The Utility Replacement Fund, a capital projects fund, accounts for the restricted resources for utility replacement projects.

Capital Improvement Projects Fund – The Capital Improvement Projects Fund, a capital projects fund, accounts for the resources assigned for miscellaneous capital improvement projects.

Park Improvement Projects Fund – The Park Improvement Projects Fund, a park projects fund, accounts for the resources assigned for miscellaneous park improvement projects.

The City reports the following major proprietary fund:

Liquor Fund – The Liquor Fund accounts for the operation of the municipal liquor store.

The City's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP are used by the City are discussed below.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the various 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 revenue of the City's enterprise fund is charges to customers for sales of goods 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.

**CITY OF AITKIN, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting (Continued)

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

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Equity

1. Cash and Investments (Including Cash Equivalents)

Cash balances are invested to the extent available in various securities as authorized by Minnesota Statutes. Investment earnings are recorded in the individual fund carrying the investment.

Cash equivalents are considered to be short-term, highly liquid investments that are readily convertible to cash and have original maturities of three months or less. Cash and cash equivalents consist of checking and saving certificate accounts, cash on hand, and money market savings accounts.

2. Property Taxes

Taxes which remain unpaid are classified as delinquent taxes receivable. Delinquent taxes represent the past seven years of uncollected tax years. Revenue from these delinquent property taxes that is not collected within 60 days of year-end is unavailable in the fund financial statements because it is not known to be available to finance the operations of the City in the current year. No allowance for uncollectible taxes has been provided as such amounts are not expected to be material.

Property Tax Collection Calendar

The City levies its property tax for the subsequent year during the month of December. In Minnesota, the lien date and assessment date is January 2. The property tax is recorded as revenue when it becomes available. Aitkin County is the collecting agency for the levy and then remits the collections to the City. All taxes not collected as of December 31 each year are included with taxes receivable.

The county auditor makes up the tax list for all taxable property in the City, applying the applicable tax capacity rate to the tax capacity value of individual properties, to arrive at the actual tax for each property. The county auditor also collects the majority of special assessments, except for certain prepayments paid directly to the City.

The county auditor turns over a list of taxes and special assessments to be collected on each parcel of property to the county treasurer in January of each year.

Property owners are required to pay one-half of their real estate taxes by May 15 and the balance by October 15.

**CITY OF AITKIN, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Equity (Continued)

2. Property Taxes (Continued)

Property Tax Collection Calendar (Continued)

Within 30 days after the May settlement, the county treasurer is required to pay 70% of the estimated collections of taxes and special assessments to the City treasurer. The county treasurer must pay the balance to the city treasurer within 60 days after settlement, provided that after 45 days interest begins to accrue.

Within 10 business days after November 15, the county treasurer shall pay to each taxing district, except any school district, 100% of the estimated collections arising from taxes levied by and belonging to each taxing district from May 20 to November 20.

3. Accounts Receivable

Aitkin Public Utilities Commission accounts receivable are recorded net of an allowance for doubtful accounts. The allowance is based on historical experience and management's evaluation of receivables at year-end. Bad debts are written when deemed uncollectible. Accounts receivable are uncollateralized. The allowance at December 31, 2024 is \$8,696.

4. Loans Receivable

Loans receivable recorded in the governmental funds consist of business loans using funds provided through state and federal grants. The loans have been collateralized and call for periodic payments of principal and interest.

5. Special Assessments

Special assessments are levied against the benefited properties for the assessable costs of improvement projects in accordance with Minnesota Statutes. Assessments are collectible over a term of years at an interest rate established by the City Council upon adoption of each assessment roll. Any annual installments remaining unpaid as of November 30th of each year are certified to the County for collection with property taxes during the following year. Property owners are allowed to prepay future installments without interest or prepayment penalties.

In the governmental fund financial statements, special assessment levies are recorded as a receivable and as deferred inflow of resources at the time of the levy. The deferred inflow of resources is recognized as current revenue as the annual assessment installments become measurable and available. Interest on special assessments is also recognized when it becomes measurable and available.

Delinquent special assessments represent the past seven years of uncollected special assessments that have not been collected within 60 days of year-end.

**CITY OF AITKIN, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Equity (Continued)

6. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2024 are recorded as prepaid items.

7. Inventories

Inventories are valued at the lower of cost or market value, using the first-in, first-out (FIFO) method.

8. 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 government as assets with an initial, individual cost of more than \$2,000 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 estimated acquisition value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

<u>Assets</u>	
Buildings	10 to 100 Years
Equipment and Vehicles	4 to 35 Years
Production and Distribution System and Equipment	5 to 100 Years
Infrastructure	100 Years

Right-to-use lease assets are initially measured at the present value of payments expected to be made during the lease term, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized in a systematic and rational manner over the shorter of the lease term or the useful life of the underlying asset.

9. Deferred Outflows of Resources

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period. The City will not recognize the related outflow until a future event occurs.

CITY OF AITKIN, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Equity (Continued)

10. Compensated Absences

The City's policies regarding vacation time permit employees to accumulate earned but unused vacation leave. The liability for compensated absences reported in the government-wide and proprietary fund statements consists of leave that has not been used that is attributable to services already rendered, accumulates and is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. The liability also includes amounts for leave that has been used for time off but has not yet been paid in cash or settled through noncash means and certain other types of leave.

11. 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. Bond premiums and discounts are amortized over the life of the bonds using the effective interest 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 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.

12. Deferred Inflows of Resources

In addition to liabilities, the financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

13. Pensions

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

**CITY OF AITKIN, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Equity (Continued)

14. Equity

Fund Balance

In the fund financial statements, governmental funds report components of fund balance to provide information about fund balance availability for appropriation. Nonspendable fund balance is the portion of fund balance that cannot be spent because it is either in nonspendable form or there is a legal or contractual requirement for the funds to remain intact. Restricted fund balance represents amounts available for appropriation but intended for a specific use and is legally restricted by outside parties. Committed fund balance represents constraints on spending that the government imposes upon itself by high-level formal action prior to the close of the fiscal period. Assigned fund balance represents resources intended for spending for a purpose set by the governmental body itself or by some person or body delegated to exercise such authority in accordance with the policy established by the Council.

Unassigned fund balance is the residual classification for the City's General Fund and includes all spendable amounts not contained in the other classifications along with any deficit fund balances in the other funds. It is the City's policy that at the end of each fiscal year, the City will strive to maintain a minimum unassigned fund balance in the General Fund of 50% of the annual budget.

Committed fund balance is required to be established, modified or rescinded by resolution of the City Council prior to each year-end.

Assigned fund balance is established, modified, rescinded by City management as this duty has been delegated to them by the City Council prior to the issuance of the financial statements and is used to reflect the intended purpose for which it is to be used. When restricted and unrestricted fund balance is available for expenditure, it is the City's policy to first use restricted fund balance, and then unrestricted resources as they are needed. When committed, assigned, and unassigned fund balance is available for expenditure, it is the City's policy to use committed, assigned, and then unassigned fund balance.

Net Position

Net position is reported in one of three categories; net investment in capital assets; restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws, or regulations of other governments; the remaining balance is considered to be unrestricted.

**CITY OF AITKIN, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Equity (Continued)

15. Adoption of New Accounting Standards

In June 2022, the Governmental Accounting Standards Board (GASB) issued GASB statement No. 101, *Compensated Absences*. This statement updated the recognition and measurement guidance for compensated absences and associated salary-related payments and amended certain previously required disclosures.

The City adopted the requirements of the guidance effective January 1, 2024, and has applied the provisions of this standard to the beginning of the period of adoption. The implementation of this standard did not result in any material adjustments.

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 for the governmental funds classified as the general fund, certain special revenue funds, debt service funds, and capital project funds. All annual appropriations lapse at year-end. The budget is legally enacted through passage of a resolution. The City Council may authorize transfer of budgeted amounts between departments within any fund.

B. Deficit Fund Balances

The following funds had deficit fund balances at December 31, 2024:

G.O Water Revenue Bonds, Series 2016A	\$ (171)
---------------------------------------	----------

This deficit will be eliminated through results of future operations and by future operating transfers.

NOTE 3 DETAILED NOTES ON ALL FUNDS

A. Assets

1. Deposits

The City maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the balance sheet as "Cash and Investments." In accordance with Minnesota Statutes the City maintains deposits at financial institutions which are authorized by the City Council.

**CITY OF AITKIN, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

1. Deposits (Continued)

Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk and follows Minnesota Statutes for deposits.

Minnesota Statutes require that all deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by insurance or corporate surety bonds.

Authorized collateral include: U.S. government treasury bills, notes, or bonds; issues of a U.S. government agency; general obligations of a state or local government rated "A" or better; revenue obligations of a state or local government rated "AA" or better; irrevocable standby letter of credit issued by a Federal Home Loan Bank; and time deposits insured by a federal agency. Minnesota Statutes require securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or at an account at a trust department of a commercial bank or other financial institution not owned or controlled by the depository.

The City and Component Unit's deposits in banks at December 31, 2024 were fully collateralized.

2. Investments

The City does not have an investment policy and is permitted to invest its idle funds as authorized by Minnesota Statutes as follows:

- Direct obligations or obligations guaranteed by the United States or its agencies.
- Shares of investment companies registered under the Federal Investment Company Act of 1940 and received the highest credit rating, are rated in one of the two highest rating categories by a statistical rating agency and all of the investments have a final maturity of thirteen months or less.
- General obligations rated "A" or better; revenue obligations rated "AA" or better.
- General obligations of the Minnesota Housing Finance Agency rate "A" or better.
- Bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System.
- Commercial paper issued by United States banks corporations or their Canadian subsidiaries, of highest quality category by a least two nationally recognized rating agencies, and maturing in 270 days or less.
- Guaranteed investment contracts guaranteed by United States commercial banks or domestic branches of foreign banks or United States insurance companies if similar debt obligations of the issuer or the collateral pledged by the issuer is in the top two rating categories.

**CITY OF AITKIN, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

2. Investments (Continued)

- Repurchase or reverse purchase agreement and securities lending agreements 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.

Credit risk – Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

The City’s investment with the 4M fund is regulated by Minnesota Statutes and the board of directors of the League of Minnesota Cities. The 4M fund is an unrated external investment pool and the fair value of the position in the pool is the same as the value of pool shares. The pool is valued at amortized cost. For this investment pool, there are no restrictions on withdrawals from the 4M Liquid Asset Fund, which may be affected on a same day basis. All investments in the 4M PLUS Fund 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 7 days interest on the amount withdrawn.

The Insurance Annuity is a group annuity guaranteed investment and is valued at amortized cost.

<u>Investment Type</u>	<u>Total</u>	<u>Credit Rating</u>	<u>Percent of Total Investments</u>
Primary Government			
Money Market	\$ 867,689	N/R	N/A
4M Money Market Fund Liquid Asset Fund	3,592,045	N/R	N/A
4M Money Market Fund Plus	294,351	N/R	N/A
Aitkin Public Utility Commission			
Money Market	579,880	N/R	N/A
Negotiable Certificates of Deposits	231,260	N/R	N/A
U.S. Treasury	184,306	AA+, Aaa	N/A
Municipal Bonds	195,795	AA, AA-	N/A
Exchange Traded Funds	968,613	N/R	N/A
Insurance Annuity	1,527,150	N/R	17.4%
Government Agencies Notes	13,896	N/R	N/A
Mutual Funds	306,328	N/R	N/A
Total	\$ 8,761,313		

N/R - Not Rated

Concentration of Credit Risk – the City places no limits on the amount the City may invest in any one issuer. The table above shows each individual investment as a percentage of the City’s total investment.

CITY OF AITKIN, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

2. Investments (Continued)

Interest rate risk – Interest rate risk is defined as the risk that changes in interest rates will adversely affect the fair value of an investment. Investments are categorized to give an indication of the level of interest rate risk assumed at year-end. Investments as of December 31, 2024 are as follows:

<u>Investment Type</u>	<u>Total</u>	<u>12 Months or Less</u>	<u>13 to 24 Months</u>	<u>25 to 60 Months</u>	<u>More than 60 Months</u>
Primary Government					
Money Market	\$ 867,689	\$ 867,689	\$ -	\$ -	\$ -
4M Money Market Fund Liquid Asset Fund	3,592,045	3,592,045	-	-	-
4M Money Market Fund Plus	294,351	294,351	-	-	-
Aitkin Public Utility Commission					
Money Market	579,880	579,880	-	-	-
Negotiable Certificates of Deposits	231,260	-	231,260	-	-
U.S. Treasury	184,306	49,547	48,570	86,189	-
Municipal Bonds	195,795	-	-	195,795	-
Exchange Traded Funds	968,613	968,613	-	-	-
Insurance Annuity	1,527,150	622,710	-	252,813	651,627
Government Agencies Notes	13,896	-	-	-	13,896
Mutual Funds	306,328	306,328	-	-	-
Total	<u>\$ 8,761,313</u>	<u>\$ 7,281,163</u>	<u>\$ 279,830</u>	<u>\$ 534,797</u>	<u>\$ 665,523</u>

The deposits and investments are presented in these financial statements:

Deposits	\$ 5,429,409
Investments	8,761,313
Total Cash and Investments	<u><u>\$ 14,190,722</u></u>
 Cash and Investments - Governmental Funds	 \$ 5,709,520
Cash and Investments - Proprietary Funds	263,964
Cash and Investments - Airport Component Unit	30,823
Cash and Investments - Utility Component Unit	8,186,415
Total Cash and Investments	<u><u>\$ 14,190,722</u></u>

The City uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures.

**CITY OF AITKIN, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

2. Investments (Continued)

The City follows an accounting standard that defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value, and requires expanded disclosures about fair value measurements. In accordance with this standard, the city has categorized its investments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Financial assets and liabilities recorded on the combined statements of financial position are categorized based on the inputs to the valuation techniques as follows:

- *Level 1* – Financial assets and liabilities are valued using inputs that are unadjusted quoted prices in active markets accessible at the measurement date of identical financial assets and liabilities. The inputs include those traded on an active exchange, such as the New York Stock Exchange, as well as U.S. Treasury and other U.S. government and agency mortgage-backed securities that are traded by dealers or brokers in active over-the-counter markets.
- *Level 2* – Financial assets and liabilities are valued based on quoted prices for similar assets, or inputs that are observable, either directly or indirectly for substantially the full term through corroboration with observable market data. These inputs include bonds valued by a pricing service that uses matrix pricing and valuation multiples.
- *Level 3* – Financial assets and liabilities are valued using pricing inputs which are unobservable for the asset, inputs that reflect the reporting entity's own assumptions about the assumptions market participants and would use in pricing the asset.

Assets measured at fair value on a recurring basis:

**CITY OF AITKIN, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

2. Investments (Continued)

Type	Level 1	Level 2	Level 3	Total
Aitkin Public Utility Commission				
Negotiable Certificates of Deposit	\$ -	\$ 231,260	\$ -	\$ 231,260
U.S. Treasury	-	184,306	-	184,306
Municipal Bonds	-	195,795	-	195,795
Exchange Traded Funds	-	968,613	-	968,613
Government Agencies Notes	-	13,896	-	13,896
Mutual Funds	306,328	-	-	306,328
Subtotal	<u>\$ 306,328</u>	<u>\$ 1,593,870</u>	<u>\$ -</u>	1,900,198
Investments measured at Amortized Cost				
Money Market				1,447,569
4M Money Market Fund Liquid Asset Fund				3,592,045
4M Money Market Fund Plus				294,351
Insurance Annuity				1,527,150
Total Investments				<u>\$ 8,761,313</u>

3. Interfund Activity

Interfund transfers for the year ended December 31, 2024 were as follows:

	Transfer In:				Total
	General Fund	Utility Replacement Fund	Capital Improvement Projects Fund	Nonmajor Governmental Funds	
Transfer Out:					
General Fund	\$ -	\$ 85,000	\$ -	\$ 76,425	\$ 161,425
Utility Replacement Fund	-	-	-	336,814	336,814
Capital Improvements Projects Fund	-	-	-	80,775	80,775
Liquor Fund	78,000	-	-	-	78,000
Total	<u>\$ 78,000</u>	<u>\$ 85,000</u>	<u>\$ -</u>	<u>\$ 494,014</u>	<u>\$ 657,014</u>

Transfers are indicative of funding for capital projects, debt service principal and interest payments, close out of various debt service funds, and subsidies of various City operations.

The G.O. Water Revenue Bonds, Series 2016A recorded a due to the General Fund in the amount of \$171 for negative cash as of the end of the year. This is expected to be repaid with future transfers to the debt service fund.

CITY OF AITKIN, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

4. Capital Assets

Capital asset activity for the Primary Government for the year ended December 31, 2024, is as follows:

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
GOVERNMENTAL ACTIVITIES					
Capital Assets, Not Being Depreciated:					
Land	\$ 206,907	\$ -	\$ (60,000)	\$ -	\$ 146,907
Construction in Progress	336,298	900,040	-	-	1,236,338
Total Capital Assets, Not Being Depreciated	543,205	900,040	(60,000)	-	1,383,245
Capital Assets, Being Depreciated:					
Buildings	3,372,883	20,050	-	-	3,392,933
Equipment and Vehicles	3,584,600	54,869	-	-	3,639,469
Infrastructure	11,245,036	-	-	-	11,245,036
Total Capital Assets, Being Depreciated	18,202,519	74,919	-	-	18,277,438
Less Accumulated Depreciation for:					
Buildings	(1,173,238)	(47,233)	-	-	(1,220,471)
Equipment and Vehicles	(2,229,381)	(167,921)	-	-	(2,397,302)
Infrastructure	(1,539,512)	(210,147)	-	-	(1,749,659)
Total Accumulated Depreciation	(4,942,131)	(425,301)	-	-	(5,367,432)
Total Capital Assets, Being Depreciated, Net	13,260,388	(350,382)	-	-	12,910,006
Governmental Activities Capital Assets, Net	<u>\$ 13,803,593</u>	<u>\$ 549,658</u>	<u>\$ (60,000)</u>	<u>\$ -</u>	<u>\$ 14,293,251</u>
BUSINESS-TYPE ACTIVITIES					
Capital Assets, Not Being Depreciated:					
Land	\$ 24,889	\$ -	\$ -	\$ -	\$ 24,889
Capital Assets, Being Depreciated:					
Buildings	371,642	18,990	-	-	390,632
Equipment	127,384	-	-	-	127,384
Total Capital Assets, Being Depreciated	499,026	18,990	-	-	518,016
Less Accumulated Depreciation for:					
Buildings	(298,635)	(8,518)	-	-	(307,153)
Equipment	(126,377)	(916)	-	-	(127,293)
Total Accumulated Depreciation	(425,012)	(9,434)	-	-	(434,446)
Total Capital Assets, Being Depreciated, Net	74,014	9,556	-	-	83,570
Business-Type Activities Capital Assets, Net	<u>\$ 98,903</u>	<u>\$ 9,556</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 108,459</u>

**CITY OF AITKIN, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

4. Capital Assets (Continued)

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

Governmental Activities

General Government	\$ 9,151
Public Safety	123,750
Public Works	186,131
Street and Highways	65,003
Library	13,776
Culture and Recreation	27,490
Total Depreciation Expense - Governmental Activities	<u>\$ 425,301</u>

Business-Type Activities

Liquor	\$ 9,434
Total Depreciation Expense - Business-Type Activities	<u>\$ 9,434</u>

CITY OF AITKIN, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

4. Capital Assets (Continued)

Capital asset activity for the Aitkin Public Utilities Commission for the year ended December 31, 2024, is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
AITKIN PUBLIC UTILITIES				
Capital Assets, Not Being Depreciated:				
Land	\$ 195,870	\$ -	\$ (45,750)	\$ 150,120
Construction in Progress	74,606	424,110	-	498,716
Total Capital Assets, Not Being Depreciated	270,476	424,110	(45,750)	648,836
Capital Assets, Being Depreciated:				
Land Improvements	51,660	-	-	51,660
Buildings	625,617	13,900	-	639,517
Distribution	10,843,142	54,140	-	10,897,282
Equipment and Vehicles	1,922,050	21,864	-	1,943,914
Total Capital Assets, Being Depreciated	13,442,469	89,904	-	13,532,373
Less Accumulated Depreciation for:				
Land Improvements	(35,939)	(3,430)	-	(39,369)
Buildings	(530,543)	(18,024)	-	(548,567)
Distribution	(8,100,537)	(185,583)	-	(8,286,120)
Equipment and Vehicles	(1,074,191)	(77,678)	-	(1,151,869)
Total Accumulated Depreciation	(9,741,210)	(284,715)	-	(10,025,925)
Total Capital Assets, Being Depreciated, Net	3,701,259	(194,811)	-	3,506,448
Intangible Right-to-Use Assets:				
Leased Equipment	10,275	24,874	-	35,149
Less: Accumulated Amortization	(2,911)	(6,413)	-	(9,324)
Total Intangible Right-to-Use Assets, Being Amortized, Net	7,364	18,461	-	25,825
Aitkin Public Utilities Capital Assets, Net	\$ 3,979,099	\$ 247,760	\$ (45,750)	\$ 4,181,109

CITY OF AITKIN, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

4. Capital Assets (Continued)

Capital assets activity for the Aitkin Airport Commission for the year ended December 31, 2024 is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
AITKIN AIRPORT COMMISSION				
Capital Assets, Not Being Depreciated:				
Land	\$ 326,170	\$ -	\$ -	\$ 326,170
Construction in Progress	122,820	443,720	-	566,540
Total Capital Assets, Not Being Depreciated	448,990	443,720	-	892,710
Capital Assets, Being Depreciated:				
Land Improvements	3,561,404	-	-	3,561,404
Buildings	432,280	-	-	432,280
Equipment and Vehicles	746,372	116,609	-	862,981
Total Capital Assets, Being Depreciated	4,740,056	116,609	-	4,856,665
Less Accumulated Depreciation for:				
Land Improvements	(2,298,154)	(83,265)	-	(2,381,419)
Buildings	(165,302)	(7,198)	-	(172,500)
Equipment and Vehicles	(409,420)	(19,372)	-	(428,792)
Total Accumulated Depreciation	(2,872,876)	(109,835)	-	(2,982,711)
Total Capital Assets, Being Depreciated, Net	1,867,180	6,774	-	1,873,954
Intangible Right-to-Use Assets				
Leased Buildings	16,699	-	-	16,699
Less: Accumulated Amortization	(4,828)	(2,414)	-	(7,242)
Total Intangible Right-to-Use Assets, Being Amortized, Net	11,871	(2,414)	-	9,457
Aitkin Public Utilities Capital Assets, Net	\$ 2,328,041	\$ 448,080	\$ -	\$ 2,776,121

5. Long-Term Lease Receivable

The City, acting as lessor, leases space for business operations under long-term, noncancelable lease agreement. The lease expires in 2028. During the year ended December 31, 2024, the City recognized \$19,980 and \$2,337 in lease revenue and interest revenue, respectively, pursuant the contract.

Aitkin Airport Commission, acting as lessor, leases lots and land for business operations and storage under long-term, noncancelable lease agreements. These leases expire between 2028 and 2041. During the year ended December 31, 2024, Aitkin Airport Commission recognized \$18,071 and \$4,480 in lease revenue and interest revenue, respectively, pursuant the contract.

**CITY OF AITKIN, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

5. Long-Term Lease Receivable (Continued)

Total future minimum lease payments to be received under the lease agreement are as follow:

<u>Business-Type Activities Lease Receivable</u>			<u>Aitkin Airport Commission Lease Receivable</u>		
	<u>Principal</u>	<u>Interest</u>		<u>Principal</u>	<u>Interest</u>
2025	\$ 20,924	\$ 1,840	2025	\$ 8,006	\$ 4,647
2026	21,441	1,324	2026	8,605	4,364
2027	21,970	794	2027	9,235	4,057
2028	22,511	252	2028	9,248	3,743
Total	<u>\$ 86,846</u>	<u>\$ 4,210</u>	2029	6,710	3,479
			2030-2034	31,558	13,502
			2035-2039	29,230	6,716
			2040-2041	13,038	1,398
			Total	<u>\$ 115,630</u>	<u>\$ 41,906</u>

Changes in the lease receivable for the year is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
<u>PRIMARY GOVERNMENT</u>				
BUSINESS-TYPE ACTIVITIES				
Lease Receivable	<u>\$ 106,826</u>	<u>\$ -</u>	<u>\$ (19,980)</u>	<u>\$ 86,846</u>
<u>COMPONENT UNIT</u>				
AITKIN AIRPORT COMMISSION				
Lease Receivable	<u>\$ 116,750</u>	<u>\$ 16,951</u>	<u>\$ (18,071)</u>	<u>\$ 115,630</u>

B. Liabilities

1. Long-Term Debt

Primary Government

The City issues general obligation bonds and certificates of indebtedness to provide funds for economic development and for the acquisition and construction of major capital facilities including infrastructure. General obligation bonds and certificates of indebtedness have been issued for governmental activities. General obligation bonds and certificates of indebtedness are direct obligations and pledge the full faith and credit of the City. Aitkin Public Utility Commission has pledged future water and wastewater user fees for payment of the revenue bonds, as well as being backed by the full faith and credit of the City.

CITY OF AITKIN, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities (Continued)

1. Long-Term Debt (Continued)

Primary Government (Continued)

On June 7, 2021, the City issued \$2,175,000 in General Obligation Street Reconstruction, Equipment, and Refunding Bonds, Series 2021A for the purpose of effecting current refundings of certain outstanding general obligations of the City as well as the construction of various street reconstruction projects and the acquisition of a plow truck for the City. The bonds carry an interest rate between 1.2% and 2.0% and will mature in 2037. The refunding was undertaken to reduce total debt service payments in the amount of \$70,730 over the next 13 years and resulted in an economic gain of \$63,799.

The City's outstanding notes from direct borrowings of \$1,926,000 contain a provision that in an event of default (1) the Authority will impose an interest penalty as provided in Minnesota Statutes, (2) may withhold approval on any disbursement request, (2) reject any pending application by the City for financial assistance, (3) to the extent permitted by law, demand immediate payment of the loan and the note in full and, upon such demand, the outstanding principal amount of the loan and note will be immediately due and payable, with interest accrued thereon to the date of payment, or (4) exercise any other remedy available to the Authority at law or equity.

General obligation bonds currently outstanding for the Primary Government are as follows:

	<u>Range of Interest Rates</u>	<u>Original Issue</u>	<u>Amount Outstanding</u>
GENERAL OBLIGATION BONDS			
G.O. Capital Improvement Plan Bonds, Series 2014A	3.80%	\$ 149,000	\$ 70,000
G.O. Street Reconstruction Refunding Bonds, Series 2017A	2.05-2.30%	268,000	64,000
G.O. Street Reconstruction, Equipment, and Refunding Bonds, Series 2021A	1.20-2.00%	2,175,000	1,830,000
REVENUE BONDS			
G.O. Water Revenue Bonds, Series 2016A	1.35-3.00%	460,000	260,000
DIRECT BORROWING			
2016 G.O. Revenue CWRF PFA Loan	1.03%	826,952	528,000
2019 G.O. Revenue CWRF PFA Loan	1.00%	901,774	676,000
2019 G.O. Revenue DWRF PFA Loan	1.00%	<u>1,005,869</u>	<u>722,000</u>
Total Outstanding Debt		<u>\$ 5,786,595</u>	<u>\$ 4,150,000</u>

**CITY OF AITKIN, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities (Continued)

1. Long-Term Debt (Continued)

Primary Government (Continued)

Summary of long-term debt transactions for the year ended December 31, 2024, is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>PRIMARY GOVERNMENT</u>					
GOVERNMENTAL ACTIVITIES					
General Obligation Bonds	\$ 2,205,000	\$ -	\$ (241,000)	\$ 1,964,000	\$ 203,000
General Obligation Revenue Bonds	290,000	-	(30,000)	260,000	30,000
Direct Borrowing - G.O. Revenue Bonds	2,053,000	-	(127,000)	1,926,000	129,000
Total Bonds Payable	4,548,000	-	(398,000)	4,150,000	362,000
Bond Premium	47,123	-	(7,399)	39,724	-
Compensated Absences *	87,941	-	(766)	87,175	-
Governmental Activity Long-Term Liabilities	\$ 4,683,064	\$ -	\$ (406,165)	\$ 4,276,899	\$ 362,000
BUSINESS-TYPE ACTIVITIES					
Compensated Absences *	\$ -	\$ 11,647	\$ -	\$ 11,647	\$ -

*The change in the compensated absences liability is presented as a net change.

Component Unit

Summary of long-term debt transactions for the year ended December 31, 2024, is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>COMPONENT UNIT</u>					
AITKIN PUBLIC UTILITIES					
Lease Liability	\$ 7,467	\$ 24,874	\$ (5,425)	\$ 26,916	\$ 7,975
Compensated Absences*	308,202	22,571	-	330,773	5,783
Aitkin Public Utilities Long-Term Liabilities	\$ 315,669	\$ 47,445	\$ (5,425)	\$ 357,689	\$ 13,758
AITKIN AIRPORT COMMISSION					
Lease Liability	\$ 9,720	\$ -	\$ (1,884)	\$ 7,836	\$ 1,930

*The change in the compensated absences liability is presented as a net change.

**CITY OF AITKIN, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities (Continued)

1. Long-Term Debt (Continued)

Annual debt service requirements to maturity for general obligation bonds and notes payable of the Primary Government are as follows:

General Obligation Bonds			Direct Borrowing - G.O. Revenue Bonds		
	Principal	Interest		Principal	Interest
2025	\$ 203,000	\$ 33,050	2025	\$ 129,000	\$ 19,434
2026	203,000	28,696	2026	129,000	18,130
2027	171,000	24,710	2027	131,000	16,827
2028	177,000	21,023	2028	132,000	15,503
2029	182,000	17,217	2029	134,000	14,168
2030-2034	708,000	52,092	2030-2034	691,000	50,255
2035-2037	320,000	8,193	2035-2039	580,000	16,186
Total	<u>\$ 1,964,000</u>	<u>\$ 184,981</u>	Total	<u>\$ 1,926,000</u>	<u>\$ 150,503</u>

General Obligation Revenue Bonds			Aitkin Airport Commission Lease Liability		
	Principal	Interest		Principal	Interest
2025	\$ 30,000	\$ 6,563	2025	\$ 1,930	\$ 170
2026	30,000	5,978	2026	1,978	122
2027	30,000	5,393	2027	2,027	73
2028	30,000	4,650	2028	1,901	23
2029	35,000	3,675	Total	<u>\$ 7,836</u>	<u>\$ 388</u>
2030-2032	105,000	4,725			
Total	<u>\$ 260,000</u>	<u>\$ 30,984</u>			

Aitkin Public Utilities Lease Liability		
	Principal	Interest
2025	\$ 7,975	\$ 535
2026	8,372	332
2027	6,104	141
2028	3,822	48
2029	643	1
Total	<u>\$ 26,916</u>	<u>\$ 1,057</u>

Lease Liability

On December 6, 2018, Aitkin Airport Commission entered into a sixty-month agreement for financing a terminal lease with payments due monthly at a discount rate of 2.44%.

**CITY OF AITKIN, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities (Continued)

1. Long-Term Debt (Continued)

Lease Liability (Continued)

On November 28, 2018, Aitkin Public Utilities Commission entered into a sixty-month agreement for financing a mail folding machine with payments due monthly at a discount rate of 2.06%. On March 4, 2022, Aitkin Public Utilities Commission entered into a sixty-month agreement for financing a postage machine with payments due monthly at a discount rate of 1.99%

2. Conduit Debt Obligations

The City has issued revenue bonds for the purpose of providing capital financing to various private enterprises. Even though the debt bears the City's name, the City is not responsible for the payment of the original debt. The debt is secured by the payments agreed to be paid by the private enterprise under the terms of the agreement between the City and the enterprise.

The general description of the transactions and the outstanding balances at December 31, 2024 is as follows:

<u>Enterprises</u>	<u>Year of Issue</u>	<u>Outstanding Balance 12/31/2024</u>
Riverwood Health Center	2016	\$ 3,302,132
Aitkin Health Services	2011	2,470,361
Riverwood Health Center	2017	6,818,432
Riverwood Health Center	2022A	9,931,583
Riverwood Health Center	2022B	6,952,108

**CITY OF AITKIN, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities (Continued)

3. Risk Management

The City is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters for which the city carries commercial insurance transferring the risk of loss to the insurance carrier. The City participates in a risk pool for workers' compensation and group health insurance. The pool in turn contracts with insurance carriers, thereby transferring the risk from the pool members to the insurance carrier. The workers' compensation policy is retrospectively rated in that the initial premium is adjusted based on the actual experience during coverage period of the group of entities that participate in the pool.

The City has determined that it is not possible to estimate the amount of such additional assessments; however, they are not expected to be material to the financial statements. There were no significant reductions in insurance coverage from the previous year or settlements in excess of insurance coverage for any of the past three fiscal years.

All of the City's component units are covered by the City's commercial insurance to cover losses in the above described risk areas.

NOTE 4 DEFINED BENEFIT PENSION PLANS

A. Plan Description

The City and Aitkin Public Utilities Commission participate in the following cost-sharing multiple-employer defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). These plan provisions are established and administered according to Minnesota Statutes chapters 353, 353D, 353E, 353G, and 356. Minnesota Statutes chapter 356 defines each plan's financial reporting requirements. PERA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

1. General Employees Retirement Plan

Membership in the General Plan includes employees of counties, cities, townships, schools in noncertified positions, and other governmental entities whose revenues are derived from taxation, fees, or assessments. Plan membership is required for any employee who is expected to earn more than \$425 in a month, unless the employee meets exclusion criteria.

**CITY OF AITKIN, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024**

NOTE 4 DEFINED BENEFIT PENSION PLANS (CONTINUED)

A. Plan Description (Continued)

2. Public Employees Police and Fire Plan

Membership in the Police & Fire Plan includes full-time, licensed police officers and firefighters who meet the membership criteria defined in Minnesota Statutes section 353.64 and who are not earning service credit in any other PERA retirement plan or a local relief association for the same service. Employers can provide Police & Fire Plan coverage for part-time positions and certain other public safety positions by submitting a resolution adopted by the entity's governing body. The resolution must state that the position meets plan requirements.

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. When a member is "vested," they have earned enough service credit to receive a lifetime monthly benefit after leaving public service and reaching an eligible retirement age. Members who retire at or over their Social Security full retirement age with at least one year of service qualify for a retirement benefit.

1. General Employees Plan Benefits

General Employees Plan requires three years of service to vest. 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 General Plan members. Members hired prior to July 1, 1989, receive the higher of the Step or Level formulas. Only the Level formula is used for members hired after June 30, 1989. Under the Step formula, General Plan members receive 1.2% of the highest average salary for each of the first 10 years of service and 1.7% for each additional year. Under the Level formula, General Plan members receive 1.7% of highest average salary for all years of service. For members hired prior to July 1, 1989 a full retirement benefit is available when age plus years of service equal 90 and normal retirement age is 65. Members can receive a reduced requirement benefit as early as age 55 if they have three or more years of service. Early retirement benefits are reduced by .25% for each month under age 65. Members with 30 or more years of service can retire at any age with a reduction of .25% for each month the member is younger than age 62. The Level formula allows General Plan members to receive a full retirement benefit at age 65 if they were first hired before July 1, 1989 or at age 66 if they were hired on or after July 1, 1989. Early retirement begins at age 55 with an actuarial reduction applied to the benefit.

**CITY OF AITKIN, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024**

NOTE 4 DEFINED BENEFIT PENSION PLANS (CONTINUED)

B. Benefits Provided (Continued)

1. General Employees Plan Benefits (Continued)

Benefit increases are provided to benefit recipients each January. The postretirement increase is equal to 50% of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1% and a maximum of 1.5%. The 2024 annual increase was 1.5%. 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 prorated increase.

2. Police and Fire Benefits

Benefits for Police and Fire Plan members hired before July 1, 2010, are vested after three years of service. Members hired on or after July 1, 2010, are 50% vested after five years of service and 100% vested after ten years. After five years, vesting increase by 10% each full year of service until members are 100% vested after ten years. Police and Fire Plan members receive 3.0% of highest average salary for all years of service. Police and Fire Plan members receive a full retirement benefit when they are age 55 and vested, or when their age plus their years of service equals 90 or greater if they were first hired before July 1, 1989. Early retirement starts at age 50, and early retirement benefits are reduced by 0.417% each month members are younger than age 55.

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

**CITY OF AITKIN, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024**

NOTE 4 DEFINED BENEFIT PENSION PLANS (CONTINUED)

C. Contributions

Minnesota Statutes chapters 353, 353E, 353G, and 356 set the rates for employer and employee contributions. Contribution rates can only be modified by the state legislature.

1. General Employees Fund Contributions

General Plan members were required to contribute 6.50% of their annual covered salary in fiscal year 2024 and the City and Aitkin Public Utility Commission were required to contribute 7.50% for General Plan members. The City contributions to the General Employees Fund for the year ended December 31, 2024, were \$41,929 and Aitkin Public Utility Commission were \$57,149. The City's and Commission's contributions were equal to the required contributions as set by state statute.

2. Police and Fire Fund Contributions

Police and Fire Plan members were required to contribute 11.80% of their annual covered salary in fiscal year 2024 and the City was required to contribute 17.70% for Police and Fire Plan members. The City's contributions to the Police and Fire Fund for the year ended December 31, 2024, were \$89,655. The City's contributions were equal to the required contributions as set by state statute.

**CITY OF AITKIN, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024**

NOTE 4 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs

1. General Employees Fund Pension Costs

At December 31, 2024, the City reported a liability of \$264,029 for its proportionate share of the General Employees Fund's net pension liability and Aitkin Public Utility Commission reported a liability of \$322,348 for its proportionate share of the General Employees Fund's net pension liability. The net pension liability reflected a reduction due to the state of Minnesota's contribution of \$16 million. The state of Minnesota is considered a nonemployer 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 \$6,827 for a total net pension liability of \$270,856. The state of Minnesota's proportionate share of the net pension liability associated with the Aitkin Public Utility Commission totaled \$8,335 for a total net pension liability of \$330,683. The net pension liability was measured as of June 30, 2024, 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 and Aitkin Public Utility Commission's proportionate share of the net pension liability was based on the contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2023 through June 30, 2024, relative to the total employer contributions received from all of PERA's participating employers. The City's proportionate share was .0071% at the end of the measurement period and .0077% for the beginning of the period. APU's proportionate share was .0087% at the end of the measurement period and .0087% for the beginning of the period.

For the year ended December 31, 2024, the City and Aitkin Public Utility Commission recognized pension expense of \$32,309 and \$18,051, respectively for its proportionate share of the General Employees Plan's pension expense. In addition, the City and Aitkin Public Utility Commission recognized an additional \$16 and \$103, respectively 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, 2024, the City and Aitkin Public Utility Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Description</u>	<u>City</u>		<u>Aitkin Public Utility</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences Between Expected and Actual Experience	\$ 24,826	\$ -	\$ 30,308	\$ -
Changes of Assumptions	1,289	99,931	1,574	122,003
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	-	76,671	-	93,607
Changes in Proportion	5,560	38,385	2,301	18,123
City Contributions Made Subsequent to the Measurement Date	22,463	-	29,139	-
Total	<u>\$ 54,138</u>	<u>\$ 214,987</u>	<u>\$ 63,322</u>	<u>\$ 233,733</u>

**CITY OF AITKIN, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024**

NOTE 4 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

1. General Employees Fund Pension Costs (Continued)

The \$22,463 and \$29,139, respectively reported as deferred outflows of resources related to pensions resulting from the City and Aitkin Public Utility Commission contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2025. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending December 31,</u>	<u>City Pension Expense Amount</u>	<u>APU Pension Expense Amount</u>
2025	\$ (92,789)	\$ (109,360)
2026	(29,170)	(26,291)
2027	(41,117)	(39,191)
2028	(20,236)	(24,708)

2. Police and Fire Fund Pension Costs

At December 31, 2024, the City reported a liability of \$545,517 for its proportionate share of the Police and Fire Fund's net pension liability. The net pension liability was measured as of June 30, 2024, 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, 2023 through June 30, 2024, relative to the total employer contributions received from all of PERA's participating employers. The City's proportionate share was 0.0415% at the end of the measurement period and 0.0375% for the beginning of the period

The state of Minnesota contributed \$37.4 million to the Police and Fire Fund in the plan fiscal year ended June 30, 2024. The contribution consisted of \$9 million in direct state aid that meets the definition of a special funding situation, additional one-time direct state aid contribution of \$19.4 million, and \$9 million in supplemental state aid that does not meet the definition of a special funding situation. Additionally, \$9 million supplemental state aid was paid on October 1, 2024. Thereafter, by October 1 of each year, the state will pay \$9 million to the Police and Fire Fund until full funding is reached or July 1, 2048, whichever is earlier. The \$9 million in supplemental state aid will continue until the fund is 90% funded, or until the State Patrol Plan (administered by the Minnesota State Retirement System) is 90% funded, whichever occurs later. The state of Minnesota's proportionate share of the net pension liability associated with the City totaled \$20,795.

**CITY OF AITKIN, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024**

NOTE 4 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

2. Police and Fire Fund Pension Costs (Continued)

For the year ended December 31, 2024, the City recognized pension expense of \$96,304 for its proportionate share of the Police and Fire Plan's pension expense. The City recognized \$8,175 as grant revenue and pension expense for its proportionate share of the state of Minnesota's pension expense for the contribution of \$9 million to the Police and Fire Fund special funding situation.

The State of Minnesota is not included as a nonemployer contributing entity in the Police and Fire Pension Plan pension allocation schedules for the \$28.4 million in supplemental state aid because this contribution was not considered to meet the definition of a special funding situation. The City recognized \$11,775 for the year ended December 31, 2024 as revenue and an offsetting reduction of net pension liability for its proportionate share of the State of Minnesota's on-behalf contributions to the Police and Fire Fund.

At December 31, 2024, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences Between Expected and Actual Experience	\$ 212,593	\$ -
Changes of Assumptions	599,664	803,288
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	-	177,375
Changes in Proportion	84,126	47,547
City Contributions Made Subsequent to the Measurement Date	48,633	-
Total	<u>\$ 945,016</u>	<u>\$ 1,028,210</u>

**CITY OF AITKIN, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024**

NOTE 4 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

2. Police and Fire Fund Pension Costs (Continued)

The \$48,633 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2025. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending December 31,</u>	<u>Pension Expense Amount</u>
2025	\$ (17,999)
2026	145,089
2027	(72,825)
2028	(210,279)
2029	24,187

3. Summary

The aggregate amount of net pension liability, net pension asset, deferred outflows of resources, deferred inflows of resources, and pension expense for the City's and APU's defined benefit pension plans are summarized below. These liabilities are typically liquidated by the individual activity in which the employee's costs are associated.

<u>Description</u>	<u>General Employees Plan</u>	<u>Police and Fire Plan</u>	<u>Fire Relief Association</u>	<u>Total</u>	<u>General Employees Plan (APU)</u>
Net Pension Asset	\$ -	\$ -	\$ 148,557	\$ 148,557	\$ -
Net Pension Liability	264,029	545,517	-	809,546	322,348
Deferred Outflows of Resources					
Related to Pensions	54,138	945,016	67,266	1,066,420	63,322
Deferred Inflows of Resources					
Related to Pensions	214,987	1,028,210	13,058	1,256,255	233,733
Pension Expense	32,394	104,479	9,608	146,481	18,154

CITY OF AITKIN, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024

NOTE 4 DEFINED BENEFIT PENSION PLANS (CONTINUED)

E. Long-Term Expected Return on Investment

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	33.5 %	5.10 %
International Equity	16.5	5.30
Fixed Income	25.0	0.75
Private Markets	25.0	5.90
Total	100.0 %	

F. Actuarial Methods and Assumptions

The total pension liability for each of the cost-sharing defined benefit plans was determined by an actuarial valuation as of June 30, 2024, using the entry age normal actuarial cost method. The long-term rate of return on pension plan investments used to determine the total liability is 7.00%. The 7.00% assumption is based on a review of inflation and investment return assumptions from a number of national investment consulting firms. The review provided a range of investment return rates considered reasonable by the actuary. An investment return of 7.00% is within that range.

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

Salary growth assumptions in the General Employees Plan range in annual increments from 10.25% after one year of service to 3% after 27 years of service. In the Police & Fire Plan, salary growth assumptions range in annual increments from 11.75% after one year of service to 3% after 24 years of service.

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

**CITY OF AITKIN, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024**

NOTE 4 DEFINED BENEFIT PENSION PLANS (CONTINUED)

F. Actuarial Methods and Assumptions (Continued)

Actuarial assumptions for the General Employees Plan are reviewed every four years. The General Employees Plan was last reviewed in 2022. The assumption changes were adopted by the board and became effective with the July 1, 2023 actuarial valuation. The Police & Fire Plan was reviewed in 2024. PERA anticipates the experience study will be approved by the Legislative Commission on Pensions and Retirement and become effective with the July 1, 2025 actuarial valuation.

The following changes in actuarial assumptions and plan provisions occurred in 2024:

General Employees Fund

Changes in Actuarial Assumptions

- Rates of merit and seniority were adjusted, resulting in slightly higher rates.
- Assumed rates of retirement were adjusted as follows: increase the rate of assumed unreduced retirements, slight adjustments to Rule of 90 retirement rates, and slight adjustments to early retirement rates for Tier 1 and Tier 2 members.
- Minor increase in assumed withdrawals for males and females.
- Lower rates of disability.
- Continued use of Pub-2010 general mortality table with slight rate adjustments as recommended in the most recent experience study.
- Minor changes to form of payment assumptions for male and female retirees.
- Minor changes to assumptions made with respect to missing participant data.

Changes in Plan Provisions

- The workers' compensation offset for disability benefits was eliminated. The actuarial equivalent factors updated to reflect the changes in assumptions.

Police and Fire Fund

Changes in Plan Provisions

- The State contribution of \$9.0 million per year will continue until the earlier of 1) both the Police & Fire Plan and the State Patrol Retirement Fund attain 90% funded status for three consecutive years (on an actuarial value of assets basis) or 2) July 1, 2048. The contribution was previously due to expire after attaining a 90% funded status for one year.
- The additional \$9.0 million contribution will continue until the Police & Fire Plan is fully funded for a minimum of three consecutive years on an actuarial value of assets basis, or July 1, 2048, whichever is earlier. This contribution was previously due to expire upon attainment of fully funded status on an actuarial value of assets basis for one year (or July 1, 2048 if earlier).

**CITY OF AITKIN, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024**

NOTE 4 DEFINED BENEFIT PENSION PLANS (CONTINUED)

G. Discount Rate

The discount rate used to measure the total pension liability in 2024 was 7.00%. 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, Police and Fire, and Correctional Plans 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 and Aitkin Public Utility Commission 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 [entity'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:

	One Percent Decrease (6.0%)	Current Discount Rate (7.0%)	One Percent Increase (8.0%)
City Proportionate Share of the General Employees Fund Net Pension Liability:	\$ 576,682	\$ 264,029	\$ 6,844
Aitkin Public Utility Proportionate Share of the General Employees Fund Net Pension Pension Liability:	704,059	322,348	8,355
	One Percent Decrease (6.0%)	Current Discount Rate (7.0%)	One Percent Increase (8.0%)
City Proportionate Share of the Police and Fire Fund Net Pension Liability:	\$ 1,289,163	\$ 545,517	\$ (65,172)

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.

**CITY OF AITKIN, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024**

NOTE 5 VOLUNTEER FIREFIGHTERS RELIEF ASSOCIATION

Plan Description

The City participates in the Statewide Volunteer Firefighter Retirement 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, 2023, the plan covered 25 active firefighters and 3 vested terminated firefighters whose pension benefits are deferred. The plan is established and administered in accordance with Minnesota Statutes, Chapter 353 G.

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 five years at 40% through 20 years at 100%.

Contributions

The Volunteer Firefighter Plan is funded by fire state aid, investment earnings and, if necessary, employer contributions as specified in Minnesota Statutes, and voluntary City contributions. The state of Minnesota contributed \$81,602 in fire state aid to the fund for the year ended December 31, 2023. Required employer contributions are calculated annually based on statutory provisions. The City's statutorily-required contributions to the Volunteer Firefighter Fund for the year ended December 31, 2023, were \$-0-. The City's contributions were equal to the required contributions as set by state statute, if applicable. In addition, the City made no voluntary contributions to the plan.

Pension Costs

At December 31, 2024, the City reported a net pension asset of \$148,557 for the Volunteer Firefighter Fund. The net pension asset was measured as of December 31, 2023. 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 fire department. The following table presents the changes in net pension liability during the year.

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a-b)
Beginning Balance 12/31/22	\$ 1,143,334	\$ 1,149,105	\$ (5,771)
Changes for the Year:			
Service Cost	41,423	-	41,423
Interest on Pension Liability	65,790	-	65,790
Change in Benefit Terms	-	-	-
Actuarial Experience (Gains)/Losses	(2,325)	-	(2,325)
Net Investment Income (Loss)	-	99,973	(99,973)
Difference between Projected and Actual Investment Earnings	-	66,099	(66,099)
Benefit Payouts	(176,500)	(176,500)	-
Contributions (Employer)	-	-	-
Contributions (State)	-	81,602	(81,602)
PERA Administrative Fee	-	-	-
Net Changes	(71,612)	71,174	(142,786)
Balance End of Year 12/31/23	\$ 1,071,722	\$ 1,220,279	\$ (148,557)

**CITY OF AITKIN, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024**

NOTE 5 VOLUNTEER FIREFIGHTERS RELIEF ASSOCIATION (CONTINUED)

Pension Costs (Continued)

For the year ended December 31, 2024, the City recognized pension expense of \$9,608.

At December 31, 2024, the City reported deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Actuarial Assumptions and Actual Experience	\$ 13,594	\$ 13,058
Difference Between Projected and Actual Investment Earnings	53,672	-
Total	<u>\$ 67,266</u>	<u>\$ 13,058</u>

Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending December 31,</u>	<u>Pension Expense Amount</u>
2024	\$ 4,765
2025	28,936
2026	41,982
2027	(20,206)
Thereafter	(1,269)

Actuarial Assumptions

The total pension liability at December 31, 2024, was determined using the entry age normal actuarial cost method and the following actuarial assumptions:

- Retirement eligibility at the later of age 50 or when fully vested
- Investment rate of return of 6.0%

Discount Rate

The discount rate used to measure the total pension liability was 6%. The projection of cash flows used to determine the discount rate assumed that contributions to the Volunteer Firefighter Fund will be made at a rate equal to the actuarially determined contribution rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Pension Liability Sensitivity

The following presents the City's net pension asset for the Volunteer Firefighter Fund, calculated using the assumed discount rate as well as what the City's net pension asset would be if it were calculated using a discount rate 1% lower or 1% higher than the current discount rate:

	One Percent Decrease in Discount Rate (5.0%)	Discount Rate (6.0%)	One Percent Increase in Discount Rate (7.0%)
Net Pension Liability (Asset)	<u>\$ (148,557)</u>	<u>\$ (148,557)</u>	<u>\$ (177,528)</u>

**CITY OF AITKIN, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024**

NOTE 5 VOLUNTEER FIREFIGHTERS RELIEF ASSOCIATION (CONTINUED)

Plan Investments

Investment Policy:

The Minnesota State Board of Investment (SBI) is established by Article XI of the Minnesota Constitution to invest all state funds. Its membership as specified in the Constitution is comprised of the governor (who is designated as chair of the board), state auditor, secretary of state and state attorney general.

All investments undertaken by the SBI are governed by the prudent person rule and other standards codified in *Minnesota Statutes*, Chapter 11A and Chapter 353G.

Within the requirements defined by state law, the SBI, with assistance of the SBI staff and the Investment Advisory Council, establishes investment policy for all funds under its control. These investments policies are tailored to the particular needs of each fund and specify investment objectives, risk tolerance, asset allocation, investment management structure and specific performance standards. Studies guide the ongoing management of the funds and are updated periodically.

Asset Allocation:

To match the long-term nature of the pension obligations, the SBI maintains a strategic asset allocation for the Volunteer Firefighter Plan that includes allocations to domestic equity, international equity, bonds and cash equivalents. The long-term target asset allocation and long-term expected real rate of return is the following:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Stocks	35.0%	5.10%
International Stocks	15.0%	5.30%
Bonds	45.0%	0.75%
Unallocated Cash	5.0%	0.00%

The 6% long-term expected rate of return on pension plan investments was determined using a building-block method. Best estimates for expected future real rates of return (expected returns, net of inflation) were developed for each asset class using both long-term historical returns and long-term capital market expectations from a number of investment management and consulting organizations. The asset class estimates, and the target allocations were then combined to produce a geometric, long-term expected real rate of return for the portfolio. Inflation expectations were applied to derive the nominal rate of return for the portfolio.

Description of significant investment policy changes during the year: The SBI made no significant changes to their investment policy during fiscal year 2023 for the Volunteer Firefighter Fund.

**CITY OF AITKIN, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024**

NOTE 5 VOLUNTEER FIREFIGHTERS RELIEF ASSOCIATION (CONTINUED)

Pension Plan Fiduciary Net Position

Detailed information about the Volunteer Firefighter Fund's fiduciary net position as of June 30, 2023, is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained at www.mnpera.org.

NOTE 6 DEFINED CONTRIBUTION PLAN

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

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. *Minnesota Statutes*, Chapter 353D and 356, specifies plan provisions, including the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes five percent of salary which is matched by the elected official's employer. For ambulance service personnel, employer contributions are determined by the employer, and for salaried employees contributions must be a fixed percentage of salary. Employer contributions for volunteer personnel may be a unit value for each call or period of alert duty. Employees who are paid for their services may elect to make member contributions in an amount not to exceed the employer share. Employer and employee contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives two percent of employer contributions and twenty-five hundredths of one percent (0.25%) of the assets in each member's account annually.

Total contributions made by the City during fiscal year 2024 were:

Contribution Amount		Percentage of Covered Payroll		Required Rate
Employee	Employer	Employee	Employer	
\$ 870	\$ 870	5.0%	5.0%	5.0%

**CITY OF AITKIN, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024**

NOTE 7 OTHER POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

A. Plan Description

The City operates a single-employer retiree benefit plan (the Plan) that provides health and dental insurance to eligible employees and their spouses through the City's health insurance plan. There are 11 active participants receiving payments. There are no inactive employees entitled to but not receiving benefits. Benefit and eligibility provisions are established through negotiations between the City and the City's employees. The Plan does not issue a publicly available financial report.

B. Funding Policy

The City does not have assets designated to pay for OPEB related costs. Contribution requirements are negotiated between the City and the City's employees. The eligibility for, amount of, duration of, and City's contribution to the cost of the benefits provided varies by contract and date of retirement. The City is funding this liability on a pay-as-you-go basis. For the year ended December 31, 2024, the City did not contribute to the plan.

C. Actuarial Methods and Assumptions

The City's OPEB liability was measured as of January 1, 2024 and was determined by an actuarial valuation as of January 1, 2024.

The total OPEB liability was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.50%
Salary Increases	Service Graded Table
Medical Trend Rates	6.50% Decreasing to 5.00% Over 6 Years then to 4.00% Over Next 48 Years

Mortality Rates were based on the Pub-2010 public retirement plans headcount-weighted mortality tables (general, safety) with MP-2021 generational improvement scale.

The actuarial assumptions used in the January 1, 2024 valuation were based on the four-year experience study for the Public Employees Retirement Association of Minnesota Police and Fire Plan completed in 2020 and the four-year experience study for the Public Employees Retirement Association of Minnesota General Employees Plan completed in 2019 and a review of the inflation assumption.

The discount rate used to measure the total OPEB liability was 3.70%. The discount rate is based on the estimated yield of 20-Year AA-rated municipal bonds.

**CITY OF AITKIN, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024**

NOTE 7 OTHER POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)

C. Actuarial Methods and Assumptions (Continued)

Since the most recent actuarial valuation, the following actuarial assumptions changes have been made:

- There have been no changes since the prior valuation.

Since the most recent actuarial valuation, the following plan provision changes have been made:

- There have been no changes since the prior valuation.

D. Changes in the OPEB Liability

	Total OPEB Liability
Balances at December 31, 2023	\$ 53,051
Changes for the Year:	
Service Cost	14,849
Interest Cost	2,506
Benefit Payments	(317)
Net Change in Total OPEB Liability	17,038
Balances at December 31, 2024	\$ 70,089

The following presents the OPEB liability of the City, as well as what the City's OPEB liability would be if it were calculated using a discount rate one percentage point lower or one percentage point higher than the current discount rate:

	1% Decrease (2.70%)	Discount Rate (3.70%)	1% Increase (4.70%)
OPEB Liability	\$ 76,931	\$ 70,089	\$ 63,797

The following presents the OPEB liability of the City, as well as what the City's OPEB liability would be if it were calculated using healthcare cost trend rates that are 1% lower (5.50% decreasing to 4% over six years) or 1% higher (7.50% decreasing to 6% over six years) than the current healthcare cost trend rates:

	1% Decrease (5.50% Decreasing to 4% Over 6 Years)	Current Trend Rates (6.50% Decreasing to 5% Over 6 Years)	1% Increase (7.50% Decreasing to 6% Over 6 Years)
OPEB Liability	\$ 60,767	\$ 70,089	\$ 81,233

**CITY OF AITKIN, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024**

NOTE 7 OTHER POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)

D. Changes in the OPEB Liability (Continued)

For the year ended December 31, 2024, the City recognized OPEB Expense of \$17,355. At December 31, 2024, the City reported deferred inflows of resources and deferred outflows of resources related to OPEB from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Benefits Paid Subsequent to the Measurement Date	\$ 338	\$ -
Total	<u>\$ 338</u>	<u>\$ -</u>

The \$338 reported as deferred outflows of resources related to OPEB resulting from City benefit payments subsequent to the measurement date will be recognized as a reduction to the net OPEB liability in the year ended December 31, 2025.

NOTE 8 TAX INCREMENT FINANCING

The City has one tax increment pay-as-you-go agreement. The agreement is not a general obligation of the City and are payable solely from available tax increment. The agreement calls for between 90 and 100% of all tax increment and tax abatement revenues received to reimburse the developers for eligible expenses. The expiration of this agreement is 2041.

The City had the following tax increment financing (TIF) districts at December 31, 2024:

TIF District Number	TIF 1-9
District Name	TIF 1-9
Type	Hsg
Year Est	2014
Expiration/Decertification	12/31/2041
Original Tax Capacity	\$ 2,296
Current Tax Capacity	\$ 38,664
Captured Tax Capacity	\$ 36,368
Retained-100%	\$ 36,368

The TIF Districts are accounted for in the Tax Increment Financing District special revenue fund and the General Obligation Tax Increment Bonds, Series 2004 Debt Service Fund.

**CITY OF AITKIN, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024**

NOTE 9 WATER AND WASTEWATER UTILITY REVENUE PLEDGES

The City has pledged future water customer revenues, net of specified operating expenses, to repay \$4,150,158 in various long-term debt. Proceeds from the bonds provided financing for various water system improvements. The bonds are payable partially from the Public Utility customer net revenues and taxes, which are backed by the City and are payable through August 20, 2036. The Public Utility contributes revenue to the City's Utility Replacement Fund from the customer revenues which then transfers money to the debt service funds to pay for the bond payments. The total principal and interest remaining to be paid on the debt is \$2,453,675. Principal and interest paid for the current year and total customer net revenues were \$263,223 and \$1,814,749.

NOTE 10 SUBSEQUENT EVENTS

On March 27, 2025, the City Council authorized issuance of \$2,348,190 in General Obligation Revenue Note, Series 2025A. General Obligation Note was issued for the purpose of providing funds to pay the costs of certain improvements to the City's drinking water utility, including the replacement of an undersized and aged water tower to provide adequate water delivery for the City. The note carries an interest rate of 1.873% and is set to mature in 2045.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF AITKIN, MINNESOTA
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY (ASSET) AND
RELATED RATIOS – AITKIN FIRE RELIEF ASSOCIATION
LAST TEN MEASUREMENT PERIODS

	December 31, 2023 Measurement Date	December 31, 2022 Measurement Date	December 31, 2021 Measurement Date
Total Pension Liability			
Service Cost	\$ 41,423	\$ 41,423	\$ 42,093
Interest	65,790	66,443	66,095
Changes in Benefit Terms	-	-	122,727
Differences Between Expected and Actual Experience	(2,325)	22,657	(16,645)
Benefit Payments	(176,500)	(106,300)	(309,300)
Net Change in Total Pension Liability	(71,612)	24,223	(95,030)
Total Pension Liability - Beginning	1,143,334	1,119,111	1,214,141
Total Pension Liability - Ending (a)	1,071,722	1,143,334	1,119,111
Plan Fiduciary Net Position			
Municipal Contributions	-	24,000	-
State Contributions	81,602	71,588	67,945
Net Investment Income (Loss)	99,973	82,020	88,345
Difference Between Projected and Actual Investment Earnings	66,099	(288,283)	48,587
Benefit Payments	(176,500)	(106,300)	(309,300)
Administrative Expenses	-	(926)	(980)
Adjustments to Initial Transfer	-	-	-
Net Change in Fiduciary Net Position	71,174	(217,901)	(105,403)
Fiduciary Net Position - Beginning of Year	1,149,105	1,367,006	1,472,409
Fiduciary Net Position - End of Year (b)	1,220,279	1,149,105	1,367,006
Association's Net Pension Liability/(Asset)			
- End of Year (a) - (b)	\$ (148,557)	\$ (5,771)	\$ (247,895)
Fiduciary Net Position as a Percentage of the Total Pension Liability	113.9%	100.5%	122.2%

NOTE 1: Information is required to be presented for 10 years. However, until a full 10-year trend is compiled, the City will present information for only those years for which information is available.

See accompanying Notes to Required Supplementary Information.

CITY OF AITKIN, MINNESOTA
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY (ASSET) AND
RELATED RATIOS – AITKIN FIRE RELIEF ASSOCIATION (CONTINUED)
LAST TEN MEASUREMENT PERIODS

December 31, 2020 Measurement Date	December 31, 2019 Measurement Date	December 31, 2018 Measurement Date	December 31, 2017 Measurement Date	December 31, 2016 Measurement Date	December 31, 2015 Measurement Date
\$ 36,676	\$ 39,131	\$ 33,595	\$ 26,805	\$ 26,321	\$ 24,676
74,045	74,337	50,682	49,746	47,874	44,130
-	-	304,660	-	-	-
(21,430)	(43,341)	(213)	(35,995)	(11,736)	(8,032)
(145,100)	-	-	(63,500)	-	-
(55,809)	70,127	388,724	(22,944)	62,459	60,774
1,269,950	1,199,823	811,099	834,043	771,584	710,810
1,214,141	1,269,950	1,199,823	811,099	834,043	771,584
-	-	-	-	-	-
74,182	69,984	69,558	67,354	77,971	58,826
81,791	203,454	(43,104)	119,889	58,694	1,539
99,424	-	-	-	-	-
(145,100)	-	-	(63,500)	-	-
(1,068)	(969)	(992)	(865)	(873)	(2,475)
-	-	-	-	-	195
109,229	272,469	25,462	122,878	135,792	58,085
1,363,180	1,090,711	1,065,249	942,371	806,579	748,494
1,472,409	1,363,180	1,090,711	1,065,249	942,371	806,579
\$ (258,268)	\$ (93,230)	\$ 109,112	\$ (254,150)	\$ (108,328)	\$ (34,995)
121.3%	107.3%	90.9%	131.3%	113.0%	104.5%

See accompanying Notes to Required Supplementary Information.

CITY OF AITKIN, MINNESOTA
SCHEDULE OF CITY AND UTILITY'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY
LAST TEN YEARS

	Measurement Date June 30, 2024	Measurement Date June 30, 2023	Measurement Date June 30, 2022	Measurement Date June 30, 2021
General Employees Fund - City of Aitkin				
City's Proportion of the Net Pension Liability	0.0071%	0.0077%	0.0081%	0.0077%
City's Proportionate Share of the Net Pension Liability	\$ 264,029	\$ 430,575	\$ 641,522	\$ 328,824
State's Proportionate Share of the Net Pension Liability Associated with the City	<u>6,827</u>	<u>11,851</u>	<u>18,723</u>	<u>10,124</u>
Total City's Proportionate Share of the Net Pension Liability	\$ 270,856	\$ 442,426	\$ 660,245	\$ 338,948
City's Covered Payroll	\$ 599,798	\$ 611,072	\$ 603,387	\$ 556,314
City's Proportionate Share of the Net Pension Liability as a Percentage of Its Covered Payroll	44.02%	70.46%	106.32%	59.11%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	89.08%	83.10%	76.67%	87.00%
General Employees Fund - Aitkin Public Utility				
Aitkin Public Utility's Proportion of the Net Pension Liability	0.0087%	0.0087%	0.0093%	0.0092%
Aitkin Public Utility's Proportionate Share of the Net Pension Liability	\$ 322,348	\$ 486,494	\$ 736,563	\$ 392,881
State's Proportionate Share of the Net Pension Liability Associated with Aitkin Public Utility	<u>8,335</u>	<u>13,351</u>	<u>21,656</u>	<u>12,022</u>
Total Aitkin Public Utility's Proportionate Share of the Net Pension Liability	\$ 330,683	\$ 499,845	\$ 758,219	\$ 404,903
Aitkin Public Utility's Covered Payroll	\$ 737,964	\$ 689,204	\$ 698,463	\$ 663,757
Aitkin Public Utility's Proportionate Share of the Net Pension Liability as a Percentage of Its Covered Payroll	43.68%	70.59%	105.45%	59.19%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	89.08%	83.10%	76.67%	87.00%
Police and Fire Fund - City of Aitkin				
City's Proportion of the Net Pension Liability	0.0415%	0.0375%	0.0415%	0.0382%
City's Proportionate Share of the Net Pension Liability	\$ 545,517	\$ 647,576	\$ 1,805,916	\$ 294,864
State's Proportionate Share of the Net Pension Liability Associated with the City	<u>\$ 20,795</u>	<u>\$ 26,145</u>	<u>\$ 78,869</u>	<u>\$ 13,250</u>
Total City's Proportionate Share of the Net Pension Liability	\$ 566,312	\$ 673,721	\$ 1,884,785	\$ 308,114
City's Covered Payroll	\$ 573,582	\$ 492,962	\$ 503,951	\$ 451,344
City's Proportionate Share of the Net Pension Liability as a Percentage of Its Covered Payroll	95.11%	131.36%	358.35%	65.33%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	90.17%	86.50%	70.50%	93.70%

See accompanying Notes to Required Supplementary Information.

CITY OF AITKIN, MINNESOTA
SCHEDULE OF CITY AND UTILITY'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY (CONTINUED)
LAST TEN YEARS

Measurement Date June 30, 2020	Measurement Date June 30, 2019	Measurement Date June 30, 2018	Measurement Date June 30, 2017	Measurement Date June 30, 2016	Measurement Date June 30, 2015
0.0065%	0.0070%	0.0070%	0.0066%	0.0066%	0.0059%
\$ 389,705	\$ 387,014	\$ 388,331	\$ 421,340	\$ 535,887	\$ 305,769
12,016	11,999	12,686	5,318	7,013	-
\$ 401,721	\$ 399,013	\$ 401,017	\$ 426,658	\$ 542,900	\$ 305,769
\$ 455,895	\$ 497,265	\$ 461,460	\$ 421,168	\$ 521,885	\$ 347,918
85.48%	77.83%	84.15%	100.04%	102.68%	87.89%
79.06%	80.23%	79.53%	75.90%	68.91%	78.20%
0.0094%	0.0086%	0.0087%	0.0088%	0.0082%	0.0085%
\$ 563,573	\$ 475,475	\$ 482,640	\$ 561,786	\$ 665,799	\$ 440,514
17,397	14,833	16,571	7,085	-	-
\$ 580,970	\$ 490,308	\$ 499,211	\$ 568,871	\$ 665,799	\$ 440,514
\$ 671,074	\$ 635,134	\$ 586,533	\$ 568,624	\$ 506,591	\$ 509,307
83.98%	74.86%	82.29%	98.80%	131.43%	86.49%
79.10%	80.23%	79.53%	75.90%	68.91%	78.20%
0.0396%	0.0385%	0.0422%	0.0380%	0.0360%	0.0370%
\$ 521,970	\$ 409,871	\$ 449,809	\$ 513,045	\$ 1,444,743	\$ 420,407
\$ 12,317	\$ -	\$ -	\$ -	\$ -	\$ -
\$ 534,287	\$ 409,871	\$ 449,809	\$ 513,045	\$ 1,444,743	\$ 420,407
\$ 446,804	\$ 405,728	\$ 444,928	\$ 391,938	\$ 362,625	\$ 340,858
116.82%	101.02%	101.10%	130.90%	398.41%	123.34%
87.19%	89.30%	88.84%	85.40%	63.88%	86.61%

See accompanying Notes to Required Supplementary Information.

CITY OF AITKIN, MINNESOTA
SCHEDULE OF CITY AND UTILITY CONTRIBUTIONS
LAST TEN YEARS

	2024	2023	2022	2021
General Employees Fund - City of Aitkin				
Contractually Required Contribution	\$ 41,929	\$ 45,825	\$ 42,503	\$ 44,640
Contributions in Relation to the Contractually Required Contribution	(41,929)	(45,825)	(42,503)	(44,640)
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's Covered Payroll	\$ 559,053	\$ 611,000	\$ 566,707	\$ 595,200
Contributions as a Percentage of Covered Payroll	7.50%	7.50%	7.50%	7.50%
General Employees Fund - Aitkin Public Utility				
Contractually Required Contribution	\$ 57,149	\$ 52,745	\$ 52,136	\$ 50,659
Contributions in Relation to the Contractually Required Contribution	(57,149)	(52,745)	(52,136)	(50,659)
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Aitkin Public Utility's Covered Payroll	\$ 761,983	\$ 703,261	\$ 695,150	\$ 675,459
Contributions as a Percentage of Covered Employee Payroll	7.50%	7.50%	7.50%	7.50%
Police and Fire Fund - City of Aitkin				
Contractually Required Contribution	\$ 89,655	\$ 87,000	\$ 84,120	\$ 84,260
Contributions in Relation to the Contractually Required Contribution	(89,655)	(87,000)	(84,120)	(84,260)
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's Covered Payroll	\$ 506,525	\$ 491,525	\$ 475,254	\$ 476,045
Contributions as a Percentage of Covered Payroll	17.70%	17.70%	17.70%	17.70%

See accompanying Notes to Required Supplementary Information.

CITY OF AITKIN, MINNESOTA
SCHEDULE OF CITY AND UTILITY CONTRIBUTIONS (CONTINUED)
LAST TEN YEARS

<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
\$ 34,495	\$ 34,464	\$ 36,060	\$ 32,116	\$ 31,135	\$ 28,726
(34,495)	(34,464)	(36,060)	(32,116)	(31,135)	(28,726)
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 459,933	\$ 459,520	\$ 480,789	\$ 428,214	\$ 415,130	\$ 383,007
7.50%	7.50%	7.50%	7.50%	7.50%	7.50%
\$ 47,897	\$ 47,352	\$ 43,990	\$ 43,309	\$ 40,053	\$ 38,198
(47,897)	(47,352)	(43,990)	(43,309)	(40,053)	(38,198)
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 638,633	\$ 631,360	\$ 586,533	\$ 577,453	\$ 534,040	\$ 508,431
7.50%	7.50%	7.50%	7.50%	7.50%	7.51%
\$ 86,231	\$ 74,534	\$ 69,426	\$ 67,148	\$ 60,216	\$ 55,393
(86,231)	(74,534)	(69,426)	(67,148)	(60,216)	(55,393)
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 487,181	\$ 439,729	\$ 428,556	\$ 414,496	\$ 371,703	\$ 341,933
17.70%	16.95%	16.20%	16.20%	16.20%	16.20%

See accompanying Notes to Required Supplementary Information.

CITY OF AITKIN, MINNESOTA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES – BUDGET AND ACTUAL – GENERAL FUND
YEAR ENDED DECEMBER 31, 2024

	Budget Original and Final	Actual	Variance With Budget Over (Under)
REVENUES			
Taxes	\$ 1,454,905	\$ 1,443,256	\$ (11,649)
Licenses and Permits	47,100	80,759	33,659
Intergovernmental	946,082	1,041,570	95,488
Charges for Services	5,445	8,592	3,147
Fines and Forfeits	6,000	18,260	12,260
Special Assessments	500	-	(500)
Interest	-	12,828	12,828
Miscellaneous	173,000	181,373	8,373
Total Revenues	2,633,032	2,786,638	153,606
EXPENDITURES			
Current:			
General Government	624,459	521,200	(103,259)
Public Safety	1,124,343	1,264,240	139,897
Public Works	599,200	550,805	(48,395)
Culture and Recreation	67,262	49,297	(17,965)
Capital Outlay	104,000	57,486	(46,514)
Debt Service:			
Principal Retirement	12,330	10,000	(2,330)
Interest and Fiscal Charges	2,013	2,850	837
Total Expenditures	2,533,607	2,455,878	(77,729)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	99,425	330,760	231,335
OTHER FINANCING SOURCES (USES)			
Transfers In	78,000	78,000	-
Transfers Out	(161,425)	(161,425)	-
Proceeds from Sale of Capital Assets	-	1,366	1,366
Total Other Financing Sources (Uses)	(83,425)	(82,059)	1,366
NET CHANGE IN FUND BALANCE	<u>\$ 16,000</u>	248,701	<u>\$ 232,701</u>
Fund Balance - Beginning of Year		283,241	
FUND BALANCE - END OF YEAR		<u>\$ 531,942</u>	

See accompanying Notes to Required Supplementary Information.

CITY OF AITKIN, MINNESOTA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES – BUDGET AND ACTUAL – FIRE FUND
YEAR ENDED DECEMBER 31, 2024

	Budget Original and Final	Actual	Variance With Budget Over (Under)
REVENUES			
Taxes	\$ 50,967	\$ 50,968	\$ 1
Intergovernmental	-	975	975
Charges for Services	214,333	214,333	-
Interest	-	76,161	76,161
Miscellaneous	-	201,000	201,000
Total Revenues	<u>265,300</u>	<u>543,437</u>	<u>278,137</u>
EXPENDITURES			
Current:			
Public Safety	169,100	241,082	71,982
Capital Outlay	<u>96,200</u>	<u>12,217</u>	<u>(83,983)</u>
Total Expenditures	<u>265,300</u>	<u>253,299</u>	<u>(12,001)</u>
NET CHANGE IN FUND BALANCE	<u>\$ -</u>	290,138	<u>\$ 290,138</u>
Fund Balance - Beginning of Year		<u>1,494,355</u>	
FUND BALANCE - END OF YEAR		<u>\$ 1,784,493</u>	

See accompanying Notes to Required Supplementary Information.

CITY OF AITKIN, MINNESOTA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2024

NOTE 1 LEGAL COMPLIANCE – BUDGETS

A. Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States for the governmental funds classified as the general fund, certain special revenue funds, debt service funds, and capital project funds. All annual appropriations lapse at year-end. The budget is legally enacted through passage of a resolution. The City Council may authorize transfer of budgeted amounts between departments within any fund.

NOTE 2 CHANGES IN SIGNIFICANT PENSION PLAN PROVISIONS, ACTUARIAL METHODS, AND ASSUMPTIONS

The following changes were reflected in the valuation performed on behalf of the Public Employees Retirement Association for the year ended June 30:

A. General Employees Fund

2024

Changes in Actuarial Assumptions

- Rates of merit and seniority were adjusted, resulting in slightly higher rates.
- Assumed rates of retirement were adjusted as follows: increase the rate of assumed unreduced retirements, slight adjustments to Rule of 90 retirement rates, and slight adjustments to early retirement rates for Tier 1 and Tier 2 members.
- Minor increase in assumed withdrawals for males and females.
- Lower rates of disability.
- Continued use of Pub-2010 general mortality table with slight rate adjustments as recommended in the most recent experience study.
- Minor changes to form of payment assumptions for male and female retirees.
- Minor changes to assumptions made with respect to missing participant data.

Changes in Plan Provisions

- The workers' compensation offset for disability benefits was eliminated. The actuarial equivalent factors updated to reflect the changes in assumptions.

2023

Changes in Actuarial Assumptions

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

CITY OF AITKIN, MINNESOTA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2024

NOTE 2 CHANGES IN SIGNIFICANT PENSION PLAN PROVISIONS, ACTUARIAL METHODS, AND ASSUMPTIONS (CONTINUED)

A. General Employees Fund (Continued)

2023 (Continued)

Changes in Plan Provisions

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

2022

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

- There have been no changes since the prior valuation.

2021

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

- There have been no changes since the prior valuation.

2020

Changes in Actuarial Assumptions

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

CITY OF AITKIN, MINNESOTA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2024

NOTE 2 CHANGES IN SIGNIFICANT PENSION PLAN PROVISIONS, ACTUARIAL METHODS, AND ASSUMPTIONS (CONTINUED)

A. General Employees Fund (Continued)

2020 (Continued)

Changes in Actuarial Assumptions (Continued)

- 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.

Changes in Plan Provisions:

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

2019

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

- The employer supplemental contribution was changed prospectively, decreasing from \$31.0 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

Changes in Actuarial Assumptions

- The mortality projection scale was changed from MP-2015 to MP-2017.
- The assumed postretirement benefit increase was changed from 1.0% per year through 2044 and 2.5% per year thereafter to 1.25% per year.

CITY OF AITKIN, MINNESOTA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2024

NOTE 2 CHANGES IN SIGNIFICANT PENSION PLAN PROVISIONS, ACTUARIAL METHODS, AND ASSUMPTIONS (CONTINUED)

A. General Employees Fund (Continued)

2018 (Continued)

Changes in Plan Provisions

- 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 4.0% to 3.0%, beginning July 1, 2018.
- Deferred augmentation was changed to 0.0%, 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 1.0% per year with a provision to increase to 2.5% upon attainment of 90% funding ratio to 50% of the Social Security Cost of Living Adjustment, not less than 1.0% and not more than 1.5%, 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

Changes in Actuarial Assumption

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

Changes in Plan Provisions

- 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.

CITY OF AITKIN, MINNESOTA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2024

NOTE 2 CHANGES IN SIGNIFICANT PENSION PLAN PROVISIONS, ACTUARIAL METHODS, AND ASSUMPTIONS (CONTINUED)

A. General Employees Fund (Continued)

2016

Changes in Actuarial Assumption

- The assumed postretirement benefit increase rate was changed from 1.0% per year through 2035 and 2.5% per year thereafter to 1.0% per year for all future years.
- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate was changed from 7.9% to 7.5%.
- 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% to 3.25% for payroll growth and 2.50% for inflation.

Changes in Plan Provisions

- There have been no changes since the prior valuation.

2015

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

- On January 1, 2015, the Minneapolis Employees Retirement Fund was merged into the General Employees Fund, which increased the total pension liability by \$1.1 billion and increase the fiduciary plan net position by \$892 million. Upon consolidation, state and employer contributions were revised; the State's contribution of \$6.0 million, which meets the special funding situation definition, was due September 2015.

B. Police and Fire Fund

2024

Changes in Actuarial Assumptions

- There have been no changes since the prior valuation.

Changes in Plan Provisions

- The State contribution of \$9.0 million per year will continue until the earlier of 1) both the Police & Fire Plan and the State Patrol Retirement Fund attain 90% funded status for three consecutive years (on an actuarial value of assets basis) or 2) July 1, 2048. The contribution was previously due to expire after attaining a 90% funded status for one year.
- The additional \$9.0 million contribution will continue until the Police & Fire Plan is fully funded for a minimum of three consecutive years on an actuarial value of assets basis, or July 1, 2048, whichever is earlier. This contribution was previously due to expire upon attainment of fully funded status on an actuarial value of assets basis for one year (or July 1, 2048 if earlier).

CITY OF AITKIN, MINNESOTA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2024

NOTE 2 CHANGES IN SIGNIFICANT PENSION PLAN PROVISIONS, ACTUARIAL METHODS, AND ASSUMPTIONS (CONTINUED)

B. Police and Fire Fund (Continued)

2023

Changes in Actuarial Assumptions

- The investment return assumption was changed from 6.5% to 7.00%.
- The single discount rate changed from 5.4% to 7.0%.

Changes in Plan Provisions

- Additional one-time direct state aid contribution of 19.4 million will be contributed to the Plan on October 1, 2023.
- Vesting requirement for new hires after June 30, 2014, was changed from a graded 20-year vesting schedule to a graded 10-year vesting schedule, with 50 percent vesting after five years, increasing incrementally to 100 percent after 10 years.
- A one-time, noncompounding benefit increase of 3.0 percent will be payable in a lump sum for calendar year 2024 by March 31, 2024.
- Psychological treatment is required effective July 1, 2023, prior to approval for a duty disability benefit for a psychological condition relating to the member's occupation.
- The total and permanent duty disability benefit was increased, effective July 1, 2023.

2022

Changes in Actuarial Assumptions

- The mortality improvement scale was changed from Scale MP-2020 to Scale MP-2021.
- The single discount rate changed from 6.50% to 5.40%.

Changes in Plan Provisions

- There have been no changes since the prior valuation.

2021

Changes in Actuarial Assumptions

- The investment return and single discount rates were changed from 7.50% to 6.50%, for financial reporting purposes.
- The inflation assumption was changed from 2.50% to 2.25%.
- The payroll growth assumption was changed from 3.25% to 3.00%.
- The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 Public Safety Mortality table. The mortality improvement scale was changed from MP-2019 to MN-2020.
- The base mortality table for disabled annuitants was changed from the RP-2014 healthy annuitant mortality table (with future mortality improvement according to Scale MP-2019) to the Pub-2010 Public Safety disabled annuitant mortality table (with future mortality improvement according to Scale MP-2020).

CITY OF AITKIN, MINNESOTA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2024

NOTE 2 CHANGES IN SIGNIFICANT PENSION PLAN PROVISIONS, ACTUARIAL METHODS, AND ASSUMPTIONS (CONTINUED)

B. Police and Fire Fund (Continued)

2021 (Continued)

Changes in Actuarial Assumptions (Continued)

- Assumed rates of salary increase were modified as recommended in the July 14, 2020 experience study. The overall impact is a decrease in gross salary increase rates.
- Assumed rates of retirement were changed as recommended in the July 14, 2020 experience study. The changes result in slightly more unreduced retirements and fewer assumed early retirements.
- Assumed rates of withdrawal were changed from select and ultimate rates to service-based rates. The changes result in more assumed terminations.
- Assumed rates of disability were increased for ages 25-44 and decreased for ages over 49. Overall, proposed rates result in more projected disabilities.
- Assumed percent married for active female members was changed from 60% to 70%. Minor changes to form of payment assumptions were applied.

Changes in Plan Provisions

- There have been no changes since the prior valuation.

2020

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

- There have been no changes since the prior valuation.

2019

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

- There have been no changes since the prior valuation.

2018

Changes in Actuarial Assumptions

- The mortality projection scale was changed from MP-2015 to MP-2017.

Changes in Plan Provisions

- Postretirement benefit increases were changed to 1.00% for all years, with no trigger.
- An end date of July 1, 2048 was added to the existing \$9.0 million state contribution.
- New annual state aid will equal \$4.5 million in fiscal years 2019 and 2020, and \$9.0 million thereafter until the plan reaches 100% funding, or July 1, 2048, if earlier.

CITY OF AITKIN, MINNESOTA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2024

NOTE 2 CHANGES IN SIGNIFICANT PENSION PLAN PROVISIONS, ACTUARIAL METHODS, AND ASSUMPTIONS (CONTINUED)

B. Police and Fire Fund (Continued)

2018 (Continued)

Changes in Plan Provisions (Continued)

- Member contributions were changed from 10.80% to 11.30% of pay, effective January 1, 2019 and 11.80% of pay, effective January 1, 2020.
- Employer contributions were changed from 16.20% to 16.95% of pay, effective January 1, 2019 and 17.70% of pay, effective January 1, 2020.
- Interest credited on member contributions decreased from 4.00% to 3.00%, beginning July 1, 2018.
- Deferred augmentation was changed to 0.00%, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

2017

Changes in Actuarial Assumptions

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

CITY OF AITKIN, MINNESOTA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2024

NOTE 2 CHANGES IN SIGNIFICANT PENSION PLAN PROVISIONS, ACTUARIAL METHODS, AND ASSUMPTIONS (CONTINUED)

B. Police and Fire Fund (Continued)

2017 (Continued)

Changes in Plan Provisions

- There have been no changes since the prior valuation.

2016

Changes in Actuarial Assumptions

- The assumed postretirement benefit increase rate was changed from 1.00% per year through 2037 and 2.50% per year thereafter to 1.00% per year for all future years.
- The assumed investment return was changed from 7.90% to 7.50%.
- The single discount rate changed from 7.90% to 5.60%.
- The assumed future salary increases, payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

Changes in Plan Provisions

- There have been no changes since the prior valuation.

C. Volunteer Firefighters Relief Association

2022

Changes in Actuarial Assumptions

- There have been no changes since the prior valuation.

Changes in Plan Provisions

- There have been no changes since the prior valuation.

2021

Changes in Actuarial Assumptions

- There have been no changes since the prior valuation.

Changes in Plan Provisions

- There have been no changes since the prior valuation.

2020

Changes in Actuarial Assumptions

- There have been no changes since the prior valuation.

Changes in Plan Provisions

- There have been no changes since the prior valuation.

**CITY OF AITKIN, MINNESOTA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2024**

**NOTE 2 CHANGES IN SIGNIFICANT PENSION PLAN PROVISIONS, ACTUARIAL METHODS,
AND ASSUMPTIONS (CONTINUED)**

C. Volunteer Firefighters Relief Association (Continued)

2019

Changes in Actuarial Assumptions

- There have been no changes since the prior valuation.

Changes in Plan Provisions

- There have been no changes since the prior valuation.

2018

Changes in Actuarial Assumptions

- There have been no changes since the prior valuation.

Changes in Plan Provisions

- The benefit level was increased from \$2,000 to \$2,800.

2017

Changes in Actuarial Assumptions

- There have been no changes since the prior valuation.

Changes in Plan Provisions

- There have been no changes since the prior valuation.

2016

Changes in Actuarial Assumptions

- There have been no changes since the prior valuation.

Changes in Plan Provisions

- There have been no changes since the prior valuation.

SUPPLEMENTARY INFORMATION

CITY OF AITKIN, MINNESOTA
COMBINING BALANCE SHEET – OTHER GOVERNMENTAL FUNDS
DECEMBER 31, 2024

	Special Revenue Funds			
	Community Economic Development Fund	Small Cities Development Block Grant Program	Store Front Loan Fund	Tax Abatement Fund
ASSETS				
Cash and Investments	\$ 340,001	\$ 182,141	\$ 102,894	\$ 60,174
Receivables:				
Loans	-	48,946	-	-
Total Assets	<u>\$ 340,001</u>	<u>\$ 231,087</u>	<u>\$ 102,894</u>	<u>\$ 60,174</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts and Contracts Payable	\$ -	\$ -	\$ -	\$ 17,441
Due to Other Funds	-	-	-	-
Total Liabilities	-	-	-	17,441
Fund Balances:				
Restricted for:				
Debt Service	-	-	-	-
Economic Development	340,001	231,087	102,894	42,733
Unassigned	-	-	-	-
Total Fund Balances	<u>340,001</u>	<u>231,087</u>	<u>102,894</u>	<u>42,733</u>
Total Liabilities and Fund Balances	<u>\$ 340,001</u>	<u>\$ 231,087</u>	<u>\$ 102,894</u>	<u>\$ 60,174</u>

CITY OF AITKIN, MINNESOTA
COMBINING BALANCE SHEET – OTHER GOVERNMENTAL FUNDS (CONTINUED)
DECEMBER 31, 2024

Debt Service Funds					
Tax Increment Financing District	Holder Abatement Fund	G.O. Street Reconstruction Bonds, Series 2017A	G.O. Refunding Bonds of 2012	G.O. Revenue Noted, Series 2016	G.O. Water Revenue Bonds, Series 2016A
\$ 38,130	\$ 34,801	\$ 20,499	\$ -	\$ 7,674	\$ -
-	-	-	-	-	-
<u>\$ 38,130</u>	<u>\$ 34,801</u>	<u>\$ 20,499</u>	<u>\$ -</u>	<u>\$ 7,674</u>	<u>\$ -</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	171
-	-	-	-	-	171
-	-	20,499	-	7,674	-
38,130	34,801	-	-	-	-
-	-	-	-	-	(171)
<u>38,130</u>	<u>34,801</u>	<u>20,499</u>	<u>-</u>	<u>7,674</u>	<u>(171)</u>
<u>\$ 38,130</u>	<u>\$ 34,801</u>	<u>\$ 20,499</u>	<u>\$ -</u>	<u>\$ 7,674</u>	<u>\$ -</u>

CITY OF AITKIN, MINNESOTA
COMBINING BALANCE SHEET – OTHER GOVERNMENTAL FUNDS (CONTINUED)
DECEMBER 31, 2024

	Debt Service Funds			Total Other Governmental Funds
	G.O. Water Revenue Bonds, Series 2019B	G.O. Sewer Revenue Bonds, Series 2019A	G.O. Street Reconstruction, Refunding Bonds, Series 2021A	
ASSETS				
Cash and Investments	\$ 5,493	\$ 11,875	\$ 192,514	\$ 996,196
Receivables:				
Loans	-	-	-	48,946
Total Assets	<u>\$ 5,493</u>	<u>\$ 11,875</u>	<u>\$ 192,514</u>	<u>\$ 1,045,142</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts and Contracts Payable	\$ -	\$ -	\$ -	\$ 17,441
Due to Other Funds	-	-	-	171
Total Liabilities	-	-	-	17,612
Fund Balances:				
Restricted for:				
Debt Service	5,493	11,875	192,514	238,055
Economic Development	-	-	-	789,646
Unassigned	-	-	-	(171)
Total Fund Balances	<u>5,493</u>	<u>11,875</u>	<u>192,514</u>	<u>1,027,530</u>
Total Liabilities and Fund Balances	<u>\$ 5,493</u>	<u>\$ 11,875</u>	<u>\$ 192,514</u>	<u>\$ 1,045,142</u>

CITY OF AITKIN, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES – OTHER GOVERNMENTAL FUNDS
DECEMBER 31, 2024

	Special Revenue Funds			
	Community Economic Development Fund	Small Cities Development Block Grant Program	Store Front Loan Fund	Tax Abatement Fund
REVENUES				
Tax Increments	\$ -	\$ -	\$ -	\$ -
Interest	15,496	481	974	2,277
Miscellaneous	17,000	-	-	9,494
Total Revenues	32,496	481	974	11,771
EXPENDITURES				
Current:				
Economic Development	38	-	-	34,882
Debt Service:				
Principal Retirement	-	-	-	-
Interest and Fiscal Charges	-	-	-	-
Total Expenditures	38	-	-	34,882
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	32,458	481	974	(23,111)
OTHER FINANCING SOURCES (USES)				
Transfers In	-	-	-	36,000
NET CHANGE IN FUND BALANCES	32,458	481	974	12,889
Fund Balances - Beginning of Year	307,543	230,606	101,920	29,844
FUND BALANCES - END OF YEAR	<u>\$ 340,001</u>	<u>\$ 231,087</u>	<u>\$ 102,894</u>	<u>\$ 42,733</u>

CITY OF AITKIN, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES – OTHER GOVERNMENTAL FUNDS (CONTINUED)
DECEMBER 31, 2024

Debt Service Funds					
Tax Increment Financing District	Holder Abatement Fund	G.O. Street Reconstruction Bonds, Series 2017A	G.O. Refunding Bonds of 2012	G.O. Revenue Noted, Series 2016	G.O. Water Revenue Bonds, Series 2016A
\$ 18,167	\$ -	\$ -	\$ -	\$ -	\$ -
1,805	1,628	-	-	-	-
-	-	-	-	-	-
19,972	1,628	-	-	-	-
32,032	-	-	-	-	-
-	-	31,000	45,000	41,000	30,000
-	-	1,829	804	5,878	7,642
32,032	-	32,829	45,804	46,878	37,642
(12,060)	1,628	(32,829)	(45,804)	(46,878)	(37,642)
-	-	35,617	27,717	49,827	38,174
(12,060)	1,628	2,788	(18,087)	2,949	532
50,190	33,173	17,711	18,087	4,725	(703)
<u>\$ 38,130</u>	<u>\$ 34,801</u>	<u>\$ 20,499</u>	<u>\$ -</u>	<u>\$ 7,674</u>	<u>\$ (171)</u>

CITY OF AITKIN, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES – OTHER GOVERNMENTAL FUNDS (CONTINUED)
DECEMBER 31, 2024

	Debt Service Funds			
	G.O. Water Revenue Bonds, Series 2019B	G.O. Sewer Revenue Bonds, Series 2019A	G.O. Street Reconstruction, Refunding Bonds, Series 2021A	Total Other Governmental Funds
REVENUES				
Tax Increments	\$ -	\$ -	\$ -	\$ 18,167
Interest	-	-	-	22,661
Miscellaneous	-	-	-	26,494
Total Revenues	-	-	-	67,322
EXPENDITURES				
Current:				
Economic Development	-	-	-	66,952
Debt Service:				
Principal Retirement	44,000	42,000	155,000	388,000
Interest and Fiscal Charges	7,660	7,180	33,395	64,388
Total Expenditures	51,660	49,180	188,395	519,340
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(51,660)	(49,180)	(188,395)	(452,018)
OTHER FINANCING SOURCES (USES)				
Transfers In	54,831	51,198	200,650	494,014
NET CHANGE IN FUND BALANCES	3,171	2,018	12,255	41,996
Fund Balances - Beginning of Year	2,322	9,857	180,259	985,534
FUND BALANCES - END OF YEAR	<u>\$ 5,493</u>	<u>\$ 11,875</u>	<u>\$ 192,514</u>	<u>\$ 1,027,530</u>

REPORTS RELATED TO *GOVERNMENT AUDITING STANDARDS*



**INDEPENDENT AUDITORS' 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
Members of the City Council
City of Aitkin
Aitkin, 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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Aitkin (the City), as of and for the year ended December 31, 2024, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated May 6, 2025.

Report on Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified.

Honorable Mayor and
Members of the City Council
City of Aitkin

We identified certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2024-001 through 2024-003 that we consider to be material weaknesses.

Report on Compliance and Other Matters

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

The City's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the City's response to the findings identified in our audit and described in the accompanying schedule of findings and responses. The City's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

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



CliftonLarsonAllen LLP

Brainerd, Minnesota
May 6, 2025



INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE

Honorable Mayor and
Members of the City Council
City of Aitkin
Aitkin, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Aitkin (the City), as of and for the year ended December 31, 2024, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated May 6, 2025.

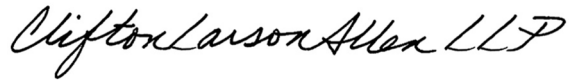
The City's basic financial statements include the operations of Aitkin Public Utility Commission. This report does not include the operations of Aitkin Public Utility Commission because the component unit engaged for its own separate audit that included the provisions of the *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*.

In connection with our audit, we noted that the City failed to comply with provisions of the depositories of public funds and public investments, and claims and disbursements sections of *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 as described in the schedule of findings and responses as items 2024-005 and 2024-006. Also, 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 – bid laws, conflicts of interest, public indebtedness, 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.

Government Auditing Standards requires the auditor to perform limited procedures on the City's response to the legal compliance findings identified in our audit and described in the accompanying schedule of findings and responses. The City's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Honorable Mayor and
Members of the City Council
City of Aitkin

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

A handwritten signature in black ink that reads "CliftonLarsonAllen LLP". The signature is written in a cursive, flowing style.

CliftonLarsonAllen LLP

Brainerd, Minnesota
May 6, 2025

**CITY OF AITKIN, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2024**

2024 – 001 Lack of Segregation of Duties

Type of Finding:

- Material Weakness in Internal Control over Financial Reporting

Condition: The City has limited number of office personnel and accordingly, does not have adequate internal controls in certain areas because of a lack of segregation of duties.

Criteria or Specific Requirement: Generally, a system of internal control contemplates separation of duties such that no individual has responsibility to execute a transaction, have physical access to the related assets, and have responsibility or authority to record the transaction.

Effect: The design of the internal control over financial reporting could adversely affect the City's ability to initiate, authorize, record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. This could include the lack of the ability to prevent or detect errors, fraud, or misappropriation of assets in a timely manner.

Cause: Size and budget constraints limit the number of personnel within the accounting department.

Repeat Finding: The finding is a repeat of a finding in the immediately prior year. Prior year finding number was 2023-001.

Recommendation: The accounting responsibilities should be reviewed periodically, and consideration given to improving the segregation of duties. We acknowledge the fact that the City's opportunity for improving segregation of duties is somewhat limited by cost-benefit consideration.

Views of Responsible Officials and Planned Corrective Action: No disagreement with finding and a corrective action is in place.

**CITY OF AITKIN, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
YEAR ENDED DECEMBER 31, 2024**

2024 – 002 Financial Statement Preparation

Type of Finding:

- Material Weakness in Internal Control over Financial Reporting

Condition: The City Council and management share the ultimate responsibility for the City's internal control system. While it is acceptable to outsource various accounting functions, the responsibility for internal control cannot be outsourced.

The City engages CLA to assist in preparing its financial statements and accompanying disclosures. However, as independent auditors, CLA cannot be considered part of the City's internal control system. As part of its internal control over the preparation of its financial statements, including disclosures, the City has implemented a comprehensive review procedure to ensure that the financial statements, including disclosures, are complete and accurate. Such review procedures should be performed by an individual possessing a thorough understanding of accounting principles generally accepted in the United States of America, and knowledge of the City's activities and operations.

Criteria or Specific Requirement: Management is responsible for establishing and maintaining internal controls, including monitoring, and for the fair presentation in the financial statements including the related disclosures, in conformity with accounting principles generally accepted in the United States of America.

Effect: The potential exists that a material misstatement of the annual financial statements could occur and not be prevented or detected by the City's internal controls in the normal course of business.

Cause: The City's personnel have not monitored recent accounting developments to the extent necessary to enable them to prepare the City's financial statements and related disclosures. However, management has reviewed and approved the financial statements and related disclosures.

Repeat Finding: The finding is a repeat of a finding in the immediately prior year. Prior year finding number was 2023-002.

Recommendation: Management should continue to evaluate their internal staff capacity to determine if an internal control policy over the annual financial reporting is beneficial.

Views of Responsible Officials and Planned Corrective Action: No disagreement with finding and a corrective action is in place.

**CITY OF AITKIN, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
YEAR ENDED DECEMBER 31, 2024**

2024 – 003 Audit Adjustments

Type of Finding:

- Material Weakness in Internal Control over Financial Reporting

Condition: As a part of the audit, we proposed material adjustments related to several areas of the financial statements.

Criteria or Specific Requirement: Management is responsible for establishing and maintaining internal controls, including monitoring, and for the fair presentation in the financial statements in accordance with accounting principles generally accepted in the United States of America. Management is responsible for the accuracy and completeness of all financial records and related information. Their responsibilities include adjusting the financial statements on a timely basis.

Effect: The potential exists that a material misstatement of the annual financial statements could occur and not be prevented or detected by the City's internal controls.

Cause: The City has limited number of staff.

Repeat Finding: The finding is a repeat of a finding in the immediately prior year. Prior year finding number was 2023-003.

Recommendation: We recommend that City management and financial personnel continue to assess procedures or processes involved in recording transactions, accruals, and reclassifications and work toward developing internal control policies and processes to provide proper recording of these items.

Views of Responsible Officials and Planned Corrective Action: No disagreement with finding and a corrective action is in place.

**CITY OF AITKIN, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
YEAR ENDED DECEMBER 31, 2024**

2024 – 004 Broker Certification

Type of Finding:

- Minnesota Legal Compliance

Condition: For investments, the City did not provide brokers a written statement of investment restrictions prior to completing an initial investment transaction.

Criteria or Specific Requirement: Minnesota Statute 118A.04 requires the City to provide brokers a written statement of investment restrictions prior to completing an initial investment transaction.

Effect: The City was not in compliance with state statutes at year-end.

Cause: The City was unaware of requirement.

Repeat Finding: No.

Recommendation: We recommend that the City obtain broker acknowledgement certificates annually.

Views of Responsible Officials and Planned Corrective Action: No disagreement with finding and a corrective action is in place.

**CITY OF AITKIN, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
YEAR ENDED DECEMBER 31, 2024**

2024 – 005 Prompt Payment of Bills

Type of Finding:

- Minnesota Legal Compliance

Condition: For checks tested, the City did not pay several invoices within the requirements of State Statute.

Criteria or Specific Requirement: Minnesota Statutes §471.425 states that all bills must be paid within 35 days of receipt of the invoices or pay interest of 1.5% per month.

Effect: The City was not in compliance with state statutes at year-end.

Cause: The City had significant turnover in the finance department.

Repeat Finding: The finding is a repeat of a finding in the immediately prior year. Prior year finding number was 2023-005.

Recommendation: We recommend that the City review policies and procedures around disbursements to ensure prompt payment of bills.

Views of Responsible Officials and Planned Corrective Action: No disagreement with finding and a corrective action is in place.

APPENDIX B

FINANCIAL STATEMENTS OF THE PUBLIC UTILITIES COMMISSION

AITKIN PUBLIC UTILITIES COMMISSION

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEARS ENDED DECEMBER 31, 2024 AND 2023



CPAs | CONSULTANTS | WEALTH ADVISORS

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**AITKIN PUBLIC UTILITIES COMMISSION
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INTRODUCTORY SECTION

**AITKIN PUBLIC UTILITIES COMMISSION
ORGANIZATION SCHEDULE
DECEMBER 31, 2024**

Board of Commissioners

Term Expires

Scott Sherman

President

12/31/24

Kathy Galliger

At-Large

12/31/25

Harlon Pelarski

At-Large

12/31/26

Officers

David Cluff

Director

Appointed



INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Aitkin Public Utilities Commission
City of Aitkin
Aitkin, Minnesota

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the Aitkin Public Utilities Commission (APU or the Commission), a component unit of the City of Aitkin, Minnesota, as of and for the years ended December 31, 2024 and 2023, and the related notes to the financial statements, which collectively comprise APU'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 financial position of the Commission as of December 31, 2024 and 2023, and the changes in financial position, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about APU'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.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. 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 GAAS 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 GAAS, 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 APU'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 APU's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the schedule of APU's proportionate share of the net pension liability and the schedule of APU contributions be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, 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 audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

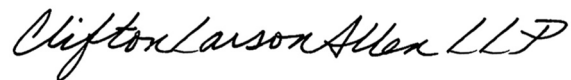
Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise APU's basic financial statements. The schedule of revenues, expenses, and changes in net position by department is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates 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 audits 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 GAAS. In our opinion, the schedule of operating revenues, expenses, and changes in net position by department 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 included in the annual report. The other information comprises the introductory section but does not include the basic financial statements and our auditors' report thereon. Our opinion on the basic financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audits 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.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Brainerd, Minnesota
February 20, 2025

FINANCIAL STATEMENTS

**AITKIN PUBLIC UTILITIES COMMISSION
STATEMENTS OF NET POSITION
DECEMBER 31, 2024 AND 2023**

	<u>2024</u>	<u>2023</u>
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
UTILITY PLANT		
Plant in Service	\$ 13,682,493	\$ 13,638,339
Right-to-Use-Asset	35,149	10,275
Construction in Progress	498,716	74,606
Total	<u>14,216,358</u>	<u>13,723,220</u>
Less: Accumulated Depreciation	(10,025,925)	(9,741,210)
Less: Accumulated Amortization	(9,324)	(2,911)
Net Utility Plant	<u>4,181,109</u>	<u>3,979,099</u>
 CURRENT ASSETS		
Cash and Cash Equivalents	4,179,187	3,360,420
Investments	4,007,228	3,874,767
Trade Accounts Receivable, Net	746,357	678,580
Interest Receivable	-	4,528
Supplies	231,012	236,134
Prepaid Expenses	6,066	6,208
Total Current Assets	<u>9,169,850</u>	<u>8,160,637</u>
 Total Assets	 13,350,959	 12,139,736
 DEFERRED OUTFLOWS OF RESOURCES		
Pension Related	<u>63,322</u>	<u>124,850</u>
 Total Assets and Deferred Outflows of Resources	 <u><u>\$ 13,414,281</u></u>	 <u><u>\$ 12,264,586</u></u>

See accompanying Notes to Financial Statements.

**AITKIN PUBLIC UTILITIES COMMISSION
STATEMENTS OF NET POSITION (CONTINUED)
DECEMBER 31, 2024 AND 2023**

	<u>2024</u>	<u>2023</u>
NET POSITION, LIABILITIES, AND DEFERRED INFLOWS OF RESOURCES		
NET POSITION		
Net Investment in Capital Assets	\$ 4,154,193	\$ 3,971,632
Restricted	155,159	126,785
Unrestricted	<u>7,735,707</u>	<u>6,797,559</u>
Total Net Position	12,045,059	10,895,976
CURRENT LIABILITIES		
Accounts Payable	243,712	231,349
Sales Tax Payable	17,472	16,404
Accrued Expenses	28,154	21,217
Due to Primary Government	72,706	16,553
Customer Deposits	93,408	95,811
Compensated Absences	5,783	3,234
Lease Liability	<u>7,975</u>	<u>2,031</u>
Total Current Liabilities	469,210	386,599
LONG-TERM LIABILITIES		
Net Pension Liability	322,348	486,494
Compensated Absences, Net	324,990	304,968
Lease Liability	<u>18,941</u>	<u>5,436</u>
Total Long-Term Liabilities	<u>666,279</u>	<u>796,898</u>
Total Liabilities	1,135,489	1,183,497
DEFERRED INFLOWS OF RESOURCES		
Pension Related	<u>233,733</u>	<u>185,113</u>
Total Net Position, Liabilities, and Deferred Inflows of Resources	<u><u>\$ 13,414,281</u></u>	<u><u>\$ 12,264,586</u></u>

See accompanying Notes to Financial Statements.

AITKIN PUBLIC UTILITIES COMMISSION
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2024 AND 2023

	<u>2024</u>	<u>2023</u>
OPERATING REVENUES		
Sales	\$ 5,597,507	\$ 5,547,223
Other Operating Revenues	<u>670,002</u>	<u>-</u>
Total Operating Revenues	6,267,509	5,547,223
OPERATING EXPENSES		
Personnel	1,116,869	1,062,527
Purchased Power	2,564,216	2,714,340
Insurance and Legal	62,290	68,220
Repairs and Maintenance	547,025	283,856
Other Services and Charges	162,360	248,527
Depreciation/Amortization	<u>291,127</u>	<u>301,071</u>
Total Operating Expenses	4,743,887	4,678,541
OPERATING INCOME	1,523,622	868,682
OTHER INCOME (EXPENSE)		
Investment Earnings/(Loss)	177,183	116,706
Interest Expense	-	(214)
Intergovernmental Revenues	14,831	-
Gain (Loss) on Sale of Assets	<u>(45,750)</u>	<u>-</u>
Total Other Income (Expense)	146,264	116,492
INCOME BEFORE PAYMENTS TO PRIMARY GOVERNMENT	1,669,886	985,174
PAYMENTS TO PRIMARY GOVERNMENT (CITY OF AITKIN)	<u>(520,803)</u>	<u>(347,852)</u>
CHANGE IN NET POSITION	1,149,083	637,322
Net Position - Beginning of Year	<u>10,895,976</u>	<u>10,258,654</u>
NET POSITION - END OF YEAR	<u><u>\$ 12,045,059</u></u>	<u><u>\$ 10,895,976</u></u>

See accompanying Notes to Financial Statements.

**AITKIN PUBLIC UTILITIES COMMISSION
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2024 AND 2023**

	<u>2024</u>	<u>2023</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Customers	\$ 5,528,395	\$ 5,535,763
Other Operating Cash Received	670,002	-
Cash Paid to Employees	(1,126,528)	(1,013,373)
Cash Paid to Suppliers	<u>(3,318,264)</u>	<u>(3,299,033)</u>
Net Cash Provided by Operating Activities	1,753,605	1,223,357
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers to the City	<u>(464,650)</u>	<u>(331,299)</u>
Net Cash Used by Noncapital Financing Activities	(464,650)	(331,299)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from Lease Liability	24,874	-
Principal Paid on Lease Liability	(5,425)	(5,943)
Interest Paid on Lease Liability	-	(214)
Acquisition of Plant	<u>(538,887)</u>	<u>(310,680)</u>
Net Cash Used by Capital and Related Financing Activities	(519,438)	(316,837)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Investments	(348,291)	(797,129)
Sale of Investments	271,086	252,288
Interest Earnings/(Loss)	<u>128,616</u>	<u>44,576</u>
Net Cash Provided (Used) by Investing Activities	<u>51,411</u>	<u>(500,265)</u>
NET INCREASE IN CASH AND RESTRICTED CASH	820,928	74,956
Cash and Cash Equivalents - Beginning of Year	<u>3,367,636</u>	<u>3,292,680</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 4,188,564</u></u>	<u><u>\$ 3,367,636</u></u>

See accompanying Notes to Financial Statements.

**AITKIN PUBLIC UTILITIES COMMISSION
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED DECEMBER 31, 2024 AND 2023**

	<u>2024</u>	<u>2023</u>
RECONCILIATION OF OPERATING INCOME TO CASH FLOWS FROM OPERATING ACTIVITIES		
Operating Income	\$ 1,523,622	\$ 868,682
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	291,127	301,071
(Increase) Decrease in Assets and Deferred Outflows of Resources:		
Trade Accounts Receivable and Other Receivables	(67,777)	8,127
Supplies	5,122	17,564
Prepaid Expenses	142	898
Deferred Outflows of Resources	61,528	103,970
Increase (Decrease) in Liabilities and Deferred Inflows of Resources:		
Accounts Payable	12,363	(2,552)
Accrued Expenses	6,937	(346)
Sales Tax Payable	1,068	(783)
Customer Deposits	(2,403)	(18,804)
Net Pension Liability	(149,315)	(250,069)
Deferred Inflows of Resources	48,620	168,167
Compensated Absences	22,571	27,432
Net Cash Provided by Operating Activities	<u>\$ 1,753,605</u>	<u>\$ 1,223,357</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES		
Increase (Decrease) in Market Value of Investments	<u>\$ 100,028</u>	<u>\$ 78,155</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENTS OF NET POSITION		
Cash	\$ 4,179,187	\$ 3,360,420
Investments	4,007,228	3,874,767
Less: Investments not Meeting Definition of Cash Equivalents	(3,997,851)	(3,867,551)
Total Cash and Cash Equivalents	<u>\$ 4,188,564</u>	<u>\$ 3,367,636</u>

See accompanying Notes to Financial Statements.

**AITKIN PUBLIC UTILITIES COMMISSION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Operation

Aitkin Public Utilities Commission (APU or the Commission) is a component unit of the City of Aitkin created under the laws of the state of Minnesota. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The GASB pronouncements are recognized as accounting principles generally accepted in the United States of America for state and local governments.

The financial statements include the operations of APU. The Electric, Water, and Wastewater Treatment Departments are treated as a single fund, discretely presented component unit of the City of Aitkin, Minnesota. APU is governed by a three-member Board of Commissioners. Board members are appointed by the Mayor and approved by the City Council to serve three-year terms. Rates charged to customers are established by APU.

Financial Reporting Entity

APU's financial statements include all funds, departments, agencies, boards, commissions, and other organizations over which APU officials exercise oversight responsibility.

Component units are legally separate entities for which APU (Primary Government) is financially accountable, or for which the exclusion of the component unit would render the financial statements of APU misleading. The criteria used to determine if APU is financially accountable for a component unit include whether or not APU appoints the voting majority of the potential component unit's governing body, is able to impose its will on the potential component unit, is in a relationship of financial benefit or burden with the potential component unit, or is fiscally depended upon by the potential component unit.

Based on these criteria, there are no organizations considered to be component units of APU.

Basis of Accounting

The accrual basis of accounting is used by APU. Under this method, revenues are recorded when earned and expenses are recorded when the related fund liability is incurred.

Proprietary funds distinguish operating revenues and expenses from other 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 revenue of APU is charges to customers for sales of electricity, water, and sewer. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on the utility plant. All revenues and expenses not meeting this definition are reported as other revenues and expenses.

**AITKIN PUBLIC UTILITIES COMMISSION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting (Continued)

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

Utility Plant

Utility plant is recorded at cost, including cost of labor and materials on self-constructed assets. Depreciation is calculated using the straight-line method over the assets' estimated useful lives, ranging from three to fifty years.

Cash and Cash Equivalents

For purposes of the statements of cash flows, cash equivalents are defined as short-term, highly liquid investments that are both:

- A. Readily convertible to known amounts of cash, or
- B. So near their maturity that they present insignificant risk of changes in value because of changes in interest rates.

APU's policy considers cash equivalents to be those that meet the above criteria and have original maturities of three months or less.

Cash and cash equivalents consist of checking, savings, money market accounts, and cash on hand.

Trade Accounts Receivable

An allowance for doubtful accounts is recorded annually based on historical experience and management's evaluation of receivables at the end of the year. Bad debts are written off when deemed uncollectible. Accounts receivables are uncollateralized. The allowance is \$8,696 as of both December 31, 2024 and 2023.

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 and so will not be recognized as an outflow of resources (expenses) until then.

Deferred Inflows of Resources

In addition to liabilities, the financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

**AITKIN PUBLIC UTILITIES COMMISSION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Net Position

Net position is categorized as net investment in capital assets, restricted and unrestricted.

- Net investment in capital assets – represents capital assets, net of accumulated depreciation/accumulation, reduced by outstanding indebtedness.
- Restricted net position – represents the balance outstanding relating to the Conservation Improvement Program.
- Unrestricted net position – represents unrestricted assets.

Adoption of New Accounting Standards

In June 2022, the Governmental Accounting Standards Board (GASB) issued GASB statement No. 101, *Compensated Absences*. This statement updated the recognition and measurement guidance for compensated absences and associated salary-related payments and amend certain previously required disclosures.

The Commission adopted the requirements of the guidance effective January 1, 2024, and has applied the provisions of this standard to the beginning of the period of adoption.

AITKIN PUBLIC UTILITIES COMMISSION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

NOTE 2 DETAIL OF UTILITY PLANT

A summary of utility plant activity for the years ended December 31 is as follows:

	2024			
	Beginning Balance	Additions	Retirements/ Transfers	Ending Balance
Utility Plant Assets:				
Land	\$ 195,870	\$ -	\$ 45,750	\$ 150,120
Construction In Progress	74,606	424,110	-	498,716
Land Improvements	51,660	-	-	51,660
Buildings	625,617	13,900	-	639,517
Distribution	10,843,142	54,140	-	10,897,282
Equipment and Vehicles	1,922,050	21,864	-	1,943,914
Total Utility Plant Assets	13,712,945	514,014	45,750	14,181,209
Accumulated Depreciation:				
Land Improvements	35,939	3,430	-	39,369
Buildings	530,543	18,024	-	548,567
Distribution	8,100,537	185,583	-	8,286,120
Equipment and Vehicles	1,074,191	77,678	-	1,151,869
Total Accumulated Depreciation	9,741,210	284,715	-	10,025,925
Net Utility Plant Assets	3,971,735	229,299	45,750	4,155,284
Right-to-Use Assets:				
Equipment	10,275	24,874	-	35,149
Less: Accumulated Amortization	2,911	6,413	-	9,324
Total Net Right-to-Use Assets	7,364	18,461	-	25,825
Total Net Utility Plant Assets	<u>\$ 3,979,099</u>	<u>\$ 247,760</u>	<u>\$ 45,750</u>	<u>\$ 4,181,109</u>

	2023			
	Beginning Balance	Additions	Retirements	Ending Balance
Utility Plant Assets:				
Land	\$ 195,870	\$ -	\$ -	\$ 195,870
Construction In Progress	-	74,606	-	74,606
Land Improvements	34,510	17,150	-	51,660
Buildings	590,506	35,111	-	625,617
Distribution	10,816,842	26,300	-	10,843,142
Equipment and Vehicles	1,764,537	157,513	-	1,922,050
Total Utility Plant Assets	13,402,265	310,680	-	13,712,945
Accumulated Depreciation:				
Land Improvements	34,510	1,429	-	35,939
Buildings	513,380	17,163	-	530,543
Distribution	7,905,213	195,324	-	8,100,537
Equipment and Vehicles	993,004	81,187	-	1,074,191
Total Accumulated Depreciation	9,446,107	295,103	-	9,741,210
Net Utility Plant Assets	3,956,158	15,577	-	3,971,735
Right-to-Use Assets:				
Equipment	18,101	-	7,826	10,275
Less: Accumulated Amortization	4,769	5,968	7,826	2,911
Total Net Right-to-Use Assets	13,332	(5,968)	-	7,364
Total Net Utility Plant Assets	<u>\$ 3,969,490</u>	<u>\$ 9,609</u>	<u>\$ -</u>	<u>\$ 3,979,099</u>

Utility plant assets that are not being depreciated, including land and CIP, totaled \$648,836 and \$270,476 at December 31, 2024 and 2023, respectively.

**AITKIN PUBLIC UTILITIES COMMISSION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023**

NOTE 3 CASH AND INVESTMENTS

Deposits

APU maintains deposits at financial institutions in accordance with Minnesota Statutes. All such depositories are members of the Federal Reserve System. Minnesota Statutes require that all deposits be protected by insurance, surety bond, or collateral.

Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, APU's deposits may not be returned to it. APU's investment policy requires that collateral or bond be obtained for all uninsured amounts and necessary documentation be obtained to show compliance with Minnesota Statutes for deposits.

Minnesota Statutes require that all deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by insurance or corporate surety bonds.

Authorized collateral include: U.S. government treasury bills, notes, or bonds; issues of a U.S. government agency; general obligations of a state or local government rated "A" or better; revenue obligations of a state or local government rated "AA" or better; irrevocable standby letter of credit issued by a Federal Home Loan Bank; and time deposits insured by a federal agency. Minnesota Statutes require securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or at an account at a trust departments of a commercial bank or other financial institution not owned or controlled by the depository.

APU's deposits in banks at December 31, 2024 were entirely covered by federal depository insurance or by surety bonds and collateral in accordance with Minnesota Statutes.

Investments

The Commission is permitted to invest its idle funds as authorized by Minnesota Statutes as follows:

- Direct obligations or obligations guaranteed by the United States or its agencies.
- Shares of investment companies registered under the Federal Investment Company Act of 1940 and received the highest credit rating is rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of thirteen months or less.
- General obligations rated "A" or better; revenue obligations rated "AA" or better.
- General obligations of the Minnesota Housing Finance Agency rate "A" or better.
- Bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System.
- Commercial paper issued by United States banks corporations or their Canadian subsidiaries, of highest quality category by a least two nationally recognized rating agencies and maturing in 270 days or less.

AITKIN PUBLIC UTILITIES COMMISSION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

NOTE 3 CASH AND INVESTMENTS (CONTINUED)

Investments (Continued)

- Guaranteed investment contracts guaranteed by United States commercial banks or domestic branches of foreign banks or United States insurance companies if similar debt obligations of the issuer or the collateral pledged by the issuer is in the top two rating categories.
- Repurchase or reverse purchase agreement and securities lending agreements 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.

At December 31, APU had the following investments:

	Fair Value at December 31,	
	2024	2023
Money Market	\$ 579,880	\$ 263,888
Mutual Funds	306,328	199,392
U.S. Treasury	184,306	179,839
Municipal Bonds	195,795	192,473
Exchange Traded Products	968,613	403,923
Negotiable Certificates of Deposit	231,260	496,633
Insurance Annuity	1,527,150	2,121,820
Government Agencies Notes	13,896	16,799
Total	<u>\$ 4,007,228</u>	<u>\$ 3,874,767</u>

The Insurance Annuity is a group annuity guaranteed investment and is valued at amortized cost.

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. APU does not have a formal policy on investment interest rate risk. Information about the sensitivity of the fair values of APU’s investments to market interest rate risk fluctuations is provided by the following table that shows the distribution of APU’s investments by maturity:

Type	Total	12 Months or less	12 - 60 Months	60 - 120 Months
Money Market	\$ 579,880	\$ 579,880	\$ -	\$ -
Mutual Funds	306,328	306,328	-	-
U.S. Treasury	184,306	49,547	134,759	-
Municipal Bonds	195,795	-	195,795	-
Exchange Traded Products	968,613	968,613	-	-
Negotiable Certificates of Deposit	231,260	-	231,260	-
Insurance Annuity	1,527,150	622,710	252,813	651,627
Government Agencies Notes	13,896	-	-	13,896
Total	<u>\$ 4,007,228</u>	<u>\$ 2,527,078</u>	<u>\$ 814,627</u>	<u>\$ 665,523</u>

**AITKIN PUBLIC UTILITIES COMMISSION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023**

NOTE 3 CASH AND INVESTMENTS (CONTINUED)

Investments (Continued)

Credit Risk – Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. APU does not have a formal investment policy; however, Minnesota Statutes restrict the types of investments APU may invest in. The following chart summarizes year-end ratings for APU's investments as rated by Moody's Investors Service:

Type	Credit Quality Rating	Amount	Percent of Total Investments
Negotiable Certificates of Deposit:			
JP Morgan Chase Bk NA CD	NR	\$ 231,260	5.8 %
Total Negotiable Certificates of Deposit		<u>\$ 231,260</u>	
Mutual Funds:			
Loomis Sayles Lmtd Term Gov't & Agny	NR	\$ 204,266	5.1 %
Money Market Funds:			
Schwab Treasure Oblig	NR	570,503	14.2 %
Exchange Traded Products:			
First Tr Exchange Traded FD IV Low	NR	246,671	6.2 %
Ishares US Treasury Bond	NR	208,843	5.2 %
Ishares Tr Agency Bond Etf	NR	202,011	5.0 %
Total Exchange Traded Products		<u>\$ 657,525</u>	
Insurance Annuity:			
Focused Growth Annuity	NR	1,276,086	31.8%
Choice Accumulation II	NR	252,813	6.3%
Total Insurance Annuity		<u>\$ 1,528,899</u>	

Concentration of Credit Risk – APU places no limits on the amount APU may invest in any one issuer. The table above shows each individual investment as a percentage of APU's total investment.

Fair Value Measurements

The Commission uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. The Commission follows an accounting standard that defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value, and requires expanded disclosures about fair value measurements. In accordance with this standard, the Commission has categorized its investments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

**AITKIN PUBLIC UTILITIES COMMISSION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023**

NOTE 3 CASH AND INVESTMENTS (CONTINUED)

Fair Value Measurements (Continued)

Financial assets and liabilities recorded on the combined statement of financial position are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Financial assets and liabilities are valued using inputs that are unadjusted quoted prices in active markets accessible at the measurement date of identical financial assets and liabilities. The inputs include those traded on an active exchange, such as the New York Stock Exchange, as well as U.S. Treasury and other U.S. government and agency mortgage-backed securities that are traded by dealers or brokers in active over-the-counter markets.

Level 2 – Financial assets and liabilities are valued based on quoted prices for similar assets, or inputs that are observable, either directly or indirectly for substantially the full term through corroboration with observable market data.

Level 3 – Financial asset and liabilities are valued using pricing inputs which are unobservable for the asset, inputs that reflect the reporting entity's own assumptions about the assumptions market participants and would use a pricing the asset.

Assets measured at fair value on a recurring basis:

Type	Level 1	Level 2	Level 3	Total
U.S. Treasury	\$ -	\$ 184,306	\$ -	\$ 184,306
Municipal Bonds	-	195,795	-	195,795
Exchange Traded Products	-	968,613	-	968,613
Negotiable Certificates of Deposit	-	231,260	-	231,260
Government Agencies Notes	-	13,896	-	13,896
Mutual Funds	306,328	-	-	306,328
Total	<u>\$ 306,328</u>	<u>\$ 1,593,870</u>	<u>\$ -</u>	<u>\$ 1,900,198</u>

NOTE 4 COMPENSATED ABSENCES

Vacation and Sick Pay Benefits Payable

Employees of APU earn sick pay at the rate 176 hours per year, available on January 1 of each year. Employees are allowed to accumulate up to 120 days of sick pay benefits. Separation severance benefits are computed at the regular base pay hourly rate in effect at the time of the employees' retirement or position abolishment. This liability is reflected in long-term liabilities.

Annual vacation benefits, ranging from 40 hours to 200 hours, are required to be used in the year they are earned, unless special circumstances arise.

AITKIN PUBLIC UTILITIES COMMISSION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

NOTE 5 LONG-TERM LIABILITIES

A summary of long-term liabilities activity for the years ended December 31 is as follows:

	2024			2023	
	Balance 12/31/2023	Additions	Retirements	Balance 12/31/2023	Amount Due Within 1 Year
Lease Liability	\$ 7,467	\$ 24,874	\$ 5,425	\$ 26,916	\$ 7,975
Compensated Absences	308,202	22,571	-	330,773	5,783
Total	<u>\$ 315,669</u>	<u>\$ 47,445</u>	<u>\$ 5,425</u>	<u>\$ 357,689</u>	<u>\$ 13,758</u>

	2023			2022	
	Balance 12/31/2022	Additions	Retirements	Balance 12/31/2022	Amount Due Within 1 Year
Lease Liability	\$ 13,410	\$ -	\$ 5,943	\$ 7,467	\$ 2,031
Compensated Absences	280,770	92,694	65,262	308,202	3,234
Total	<u>\$ 294,180</u>	<u>\$ 92,694</u>	<u>\$ 71,205</u>	<u>\$ 315,669</u>	<u>\$ 5,265</u>

The change in compensated absences is presented as a net change.

On March 4, 2022, APU entered into a sixty-month agreement for a postage machine with payments due monthly with a discount rate of 1.99%. On March 1, 2024, APU entered into a sixty-month agreement for an inserter machine with payments due monthly with a discount rate of 1.99%. On June 11, 2024, APU entered into a thirty-seven-month agreement for a copier with payments due monthly with a discount rate of 3.50%.

The minimum annual principal and interest payments required to retire long-term debt, not including compensated absences, is as follows:

<u>Year Ended December 31,</u>	Lease Liability		
	Principal	Interest	Total
2025	\$ 7,975	\$ 535	\$ 8,510
2026	8,372	332	8,704
2027	6,104	141	6,245
2028	3,822	48	3,870
2029	643	1	644
Total	<u>\$ 26,916</u>	<u>\$ 1,057</u>	<u>\$ 27,973</u>

NOTE 6 RISK MANAGEMENT

APU is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; error or omissions; injuries to employees; or natural disasters. APU participates in the League of Minnesota Cities Insurance Trust (LMCIT), a public entity risk pool for all its insurance except for employee health insurance which is through Blue Cross-Blue Shield. The LMCIT operates as a common risk management and insurance program for Minnesota cities. The agreement for formation of the LMCIT provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of reserved amounts for each insured event. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**AITKIN PUBLIC UTILITIES COMMISSION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023**

NOTE 7 PENSION PLANS

Pension Description

APU participates in the following cost-sharing multiple-employer defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). These plan provisions are established and administered according to Minnesota Statutes chapters 353, 353D, 353E, 353G, and 356. Minnesota Statutes chapter 356 defines each plan's financial reporting requirements. PERA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

Membership in the General Plan includes employees of counties, cities, townships, schools in noncertified positions, and other governmental entities whose revenues are derived from taxation, fees, or assessments. Plan membership is required for any employee who is expected to earn more than \$425 in a month, unless the employee meets exclusion criteria.

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. When a member is "vested," they have earned enough service credit to receive a lifetime monthly benefit after leaving public service and reaching an eligible retirement age. Members who retire at or over their Social Security full retirement age with at least one year of service qualify for a retirement benefit.

General Employees Plan requires three years of service to vest. 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 the Step or Level formulas. Only the Level formula is used for members hired after June 30, 1989. Under the Step formula, the accrual rate for General Plan members is 1.2% of the highest average salary for each of the first 10 years of service and 1.7% for each additional year. Under the Level formula, the accrual rate for General Plan members is 1.7% of highest 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. Members can receive a reduced requirement benefit as early as age 55 if they have three or more years of service. Early retirement benefits are reduced by .25% for each month under age 65. Members with 30 or more years of service can retire at any age with a reduction of .25% for each month the member is younger than age 62. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66. Early retirement begins at age 55 with an actuarial reduction applied to the benefit.

**AITKIN PUBLIC UTILITIES COMMISSION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023**

NOTE 7 PENSION PLANS (CONTINUED)

Benefits Provided (Continued)

Benefit increases are provided to benefit recipients each January. The postretirement increase is equal to 50% of the cost-of-living adjustment (COLA) announced by the Social Security Administration (SSA), with a minimum increase of at least 1% and a maximum of 1.5%. The 2024 annual increase was 1.5%. 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 prorated increase.

Contributions

Minnesota Statutes chapters 353, 353E, 353G, and 356 set the rates for employer and employee contributions. Contribution rates can only be modified by the state Legislature.

Coordinated Plan members were required to contribute 6.50% of their annual covered salary in calendar year 2024. APU was required to contribute 7.50% for Coordinated Plan members in calendar year 2024. APU's contributions to the Plan for the years ended December 31, 2024 and 2023 were \$57,149 and \$52,745, respectively. APU's contributions were equal to the required contributions as set by state statute.

Pension Costs

At December 31, 2024 and 2023, APU reported a liability of \$322,348 and \$486,494, respectively, for its proportionate share of the Plan's net pension liability. APU'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 nonemployer 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 APU totaled \$8,335, for a total net pension liability of \$330,683 associated with APU.

The net pension liability was measured as of June 30, 2024, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. APU's proportion of the net pension liability was based on the APU's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2023, through June 30, 2024, relative to the total employer contributions received from all of PERA's participating employers. APU's proportionate share was 0.0087% at the end of the measurement period and 0.0087% for the beginning of the period.

For the years ended December 31, 2024 and 2023, APU recognized pension expense of \$18,051 and \$75,065, respectively, for its proportionate share of the Plan's pension expense. In addition, APU recognized an additional \$103 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.

AITKIN PUBLIC UTILITIES COMMISSION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

NOTE 7 PENSION PLANS (CONTINUED)

Pension Costs (Continued)

During the plan year ended June 30, 2024, the State of Minnesota contributed \$170.1 million to the General Employees Fund. The State of Minnesota is not included as a nonemployer contributing entity in the General Employees Plan pension allocation schedules for the \$170.1 million in direct state aid because this contribution was not considered to meet the definition of a special funding situation. APU recognized \$14,831 for the year ended December 31, 2024 as revenue and an offsetting reduction of net pension liability for its proportionate share of the State of Minnesota's on-behalf contributions to the General Employees Fund.

At December 31, 2024 and 2023, APU 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:

2024		
Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual		
Economic Experience	\$ 30,308	\$ -
Changes in Actuarial Assumptions	1,574	122,003
Net Difference Between Projected and Actual		
Earnings on Pension Plan Investments	-	93,607
Changes in Proportion	2,301	18,123
APU Contributions Subsequent to the Measurement Date	29,139	-
Total	<u>\$ 63,322</u>	<u>\$ 233,733</u>
2023		
Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual		
Economic Experience	\$ 15,976	\$ 3,351
Changes in Actuarial Assumptions	78,757	133,344
Net Difference Between Projected and Actual		
Earnings on Pension Plan Investments	-	18,193
Changes in Proportion	2,780	30,225
APU Contributions Subsequent to the Measurement Date	27,337	-
Total	<u>\$ 124,850</u>	<u>\$ 185,113</u>

**AITKIN PUBLIC UTILITIES COMMISSION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023**

NOTE 7 PENSION PLANS (CONTINUED)

Pension Costs (Continued)

The \$29,139 is reported as deferred outflows of resources related to pensions resulting from APU contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2025. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending December 31,</u>	<u>Pension Expenses</u>
2025	\$ (109,360)
2026	(26,291)
2027	(39,191)
2028	(24,708)

The total pension expense recognized by APU for the year ended December 31, 2024 was \$18,154.

Long-Term Expected Return on Investments

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:

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

Actuarial Assumptions

The total pension liability for each of the cost-sharing defined benefit plans was determined by an actuarial valuation as of June 30, 2024, using the entry age normal actuarial cost method. The long-term rate of return on pension plan investments used to determine the total liability is 7%. The 7% assumption is based on a review of inflation and investment return assumptions from a number of national investment consulting firms. The review provided a range of investment return rates considered reasonable by the actuary. An investment return of 7% is within that range.

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

**AITKIN PUBLIC UTILITIES COMMISSION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023**

NOTE 7 PENSION PLANS (CONTINUED)

Actuarial Assumptions (Continued)

Salary growth assumptions in the General Employees Plan range in annual increments from 10.25% after one year of service to 3.00% after 27 years of service.

Mortality rates for the General Employees Plan are based on the Pub-2010 General Employee Mortality Table.

Actuarial assumptions for the General Employees Plan are reviewed every four years. The most recent four-year experience study for the General Employees Plan was completed in 2022. The assumption changes were adopted by the Board and became effective with the July 1, 2023 actuarial valuation.

The following changes in actuarial assumptions and plan provisions occurred in 2024:

Changes in Actuarial Assumptions:

- Rates of merit and seniority were adjusted, resulting in slightly higher rates.
- Assumed rates of retirement were adjusted as follows: increase the rate of assumed unreduced retirements, slight adjustments to Rule of 90 retirement rates, and slight adjustments to early retirement rates for Tier 1 and Tier 2 members.
- Minor increase in assumed withdrawals for males and females.
- Lower rates of disability.
- Continued use of Pub-2010 general mortality table with slight rate adjustments as recommended in the most recent experience study.
- Minor changes to form of payment assumptions for male and female retirees.
- Minor changes to assumptions made with respect to missing participant data.

Changes in Plan Provisions:

- The workers' compensation offset for disability benefits was eliminated. The actuarial equivalent factors updated to reflect the changes in assumptions.

Discount Rate

The discount rate used to measure the total pension liability in 2024 and 2023 was 7.00%. 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 was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**AITKIN PUBLIC UTILITIES COMMISSION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023**

NOTE 7 PENSION PLANS (CONTINUED)

Pension Liability Sensitivity

The following presents APU's proportionate share of the net pension liability calculated using the discount rate disclosed in the preceding paragraph, as well as what APU'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:

Description	1% Decrease	Current Discount Rate	1% Increase in Discount Rate
<u>June 30, 2024</u>			
<u>General Employees Fund Discount Rate</u>	6.00 %	7.00 %	8.00 %
APU's Proportionate Share of the Net Pension Liability	\$ 704,059	\$ 322,348	\$ 8,355
<u>June 30, 2023</u>			
<u>General Employees Fund Discount Rate</u>	6.00 %	7.00 %	8.00 %
APU's Proportionate Share of the Net Pension Liability	\$ 860,647	\$ 486,494	\$ 178,739

Pension Plan Fiduciary Net Position

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

NOTE 8 PAYMENTS TO THE PRIMARY GOVERNMENT (CITY OF AITKIN)

Payments to the City of Aitkin

During 2024 and 2023, APU made the following payments to the City of Aitkin:

Payment	Frequency	Amount	Total	
			2024	2023
Electric	Monthly	\$ 12,500	\$ 156,000	\$ 150,000
Water Replacement Fund	Monthly	Varies	137,746	75,539
Sewer Replacement Fund	Monthly	Varies	157,633	105,760
Wastewater Revenue	Annually	Varies	69,424	16,553
Total Payments to the City of Aitkin			<u>\$ 520,803</u>	<u>\$ 347,852</u>

NOTE 9 COMMITMENTS

APU is obligated to purchase all of its wholesale power requirements from Minnesota Power and Light Company through December 31, 2029.

REQUIRED SUPPLEMENTARY INFORMATION

AITKIN PUBLIC UTILITIES COMMISSION
SCHEDULES OF APU'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
LAST TEN YEARS

Measurement Date	APU's Proportion of the Net Pension Liability	APU's Proportionate Share of the Net Pension Liability	State's Proportionate Share of the Net Pension Liability	Total APU's Proportionate Share of the Net Pension Liability	APU's Covered Payroll	APU's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
June 30, 2024	0.0087%	\$ 322,348	\$ 8,335	\$ 330,683	\$ 737,964	43.68%	89.08%
June 30, 2023	0.0087%	486,494	13,351	499,845	689,204	70.59%	83.10%
June 30, 2022	0.0093%	736,563	21,656	758,219	698,463	105.45%	76.67%
June 30, 2021	0.0092%	392,881	12,022	404,903	663,757	59.19%	87.00%
June 30, 2020	0.0094%	563,573	17,397	580,970	671,074	83.98%	79.10%
June 30, 2019	0.0086%	475,475	14,833	490,308	635,134	74.86%	80.23%
June 30, 2018	0.0087%	482,640	16,571	499,211	586,533	82.29%	79.50%
June 30, 2017	0.0088%	561,786	7,085	568,871	568,624	98.80%	75.90%
June 30, 2016	0.0082%	665,799	-	665,799	506,591	131.43%	68.91%
June 30, 2015	0.0085%	440,514	-	440,514	509,307	86.49%	78.20%

See accompanying Note to Required Supplementary Information.

**AITKIN PUBLIC UTILITIES COMMISSION
SCHEDULE OF APU CONTRIBUTIONS
LAST TEN YEARS**

December 31,	Contractually Required Contribution	Contributions in Relation to the Contractually Required Contribution	Contribution Deficiency (Excess)	APU's Covered Payroll	Contributions as a Percentage of Covered Payroll
2024	\$ 57,149	\$ (57,149)	\$ -	\$ 761,983	7.50%
2023	52,745	(52,745)	-	703,261	7.50%
2022	52,136	(52,136)	-	695,150	7.50%
2021	50,659	(50,659)	-	675,459	7.50%
2020	47,897	(47,897)	-	638,633	7.50%
2019	47,352	(47,352)	-	631,360	7.50%
2018	43,990	(43,990)	-	586,533	7.50%
2017	43,309	(43,309)	-	577,453	7.50%
2016	40,053	(40,053)	-	534,040	7.50%
2015	38,198	(38,198)	-	508,431	7.51%

See accompanying Note to Required Supplementary Information.

**AITKIN PUBLIC UTILITIES COMMISSION
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2024**

NOTE 1 CHANGES IN SIGNIFICANT PENSION PLAN PROVISION, ACTUARIAL METHODS, AND ASSUMPTIONS

The following changes were reflected in the valuation performed on behalf of the Public Employees Retirement Association for the measurement period ended June 30:

2024

Changes in Actuarial Assumptions

- Rates of merit and seniority were adjusted, resulting in slightly higher rates.
- Assumed rates of retirement were adjusted as follows: increase the rate of assumed unreduced retirements, slight adjustments to Rule of 90 retirement rates, and slight adjustments to early retirement rate for Tier 1 and Tier 2 members.
- Minor increase in assumed withdrawals for males and females.
- Lower rates of disability.
- Continued use of Pub-2010 general mortality table with slight rate adjustments as recommended in the most recent experience study.
- Minor changes to form of payment assumptions for male and female retirees.
- Minor changes to assumptions made with respect to missing participant data.

Changes in Plan Provisions

- The workers' compensation offset for disability benefits was eliminated. The actuarial equivalent factors updated to reflect the changes in assumptions.

2023

Changes in Actuarial Assumptions

- The investment return assumption and single discount rate were changed from 6.50% to 7.00%.

Changes in Plan Provisions

- An additional one-time direct state aid contribution of \$170.1 million will be contributed to the Plan on October 1, 2023.
- The vesting period for those hired after June 30, 2010 was changed from five years of allowable service to three years of allowable service.
- The benefit increase delay for early retirements on or after January 1, 2024 was eliminated.
- A one-time, noncompounding benefit increase of 2.50% minus the actual 2024 adjustment will be payable in a lump sum for calendar year 2024 by March 31, 2024.

2022

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

- There have been no changes since the prior valuation.

**AITKIN PUBLIC UTILITIES COMMISSION
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2024**

NOTE 1 CHANGES IN SIGNIFICANT PENSION PLAN PROVISION, ACTUARIAL METHODS, AND ASSUMPTIONS (CONTINUED)

2021

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

- There have been no changes since the prior valuation.

2020

Changes in Actuarial Assumptions

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

**AITKIN PUBLIC UTILITIES COMMISSION
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2024**

**NOTE 1 CHANGES IN SIGNIFICANT PENSION PLAN PROVISION, ACTUARIAL METHODS,
AND ASSUMPTIONS (CONTINUED)**

2020 (Continued)

Changes in Plan Provisions

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

2019

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

- 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

Changes in Actuarial Assumptions

- The mortality projection scale was changed from MP-2015 to MP-2017.
- The assumed postretirement benefit increase was changed from 1.0% per year through 2044 and 2.5% per year thereafter to 1.25% per year.

Changes in Plan Provisions

- 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% to 3.00%, beginning July 1, 2018.
- Deferred augmentation was changed to 0.00%, 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% per year with a provision to increase to 2.50% upon attainment of 90.00% funding ratio to 50.00% of the Social Security Cost of Living Adjustment, not less than 1.00% and not more than 1.50%, beginning January 1, 2019.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.
- 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.

**AITKIN PUBLIC UTILITIES COMMISSION
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2024**

**NOTE 1 CHANGES IN SIGNIFICANT PENSION PLAN PROVISION, ACTUARIAL METHODS,
AND ASSUMPTIONS (CONTINUED)**

2017

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

- 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

Changes in Actuarial Assumptions

- The assumed postretirement benefit increase rate was changed from 1.0% per year through 2035 and 2.5% per year thereafter to 1.0% per year for all future years.
- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate was changed from 7.9% to 7.5%.
- 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% to 3.25% for payroll growth and 2.50% for inflation.

Changes in Plan Provisions

- There have been no changes since the prior valuation.

SUPPLEMENTARY INFORMATION

AITKIN PUBLIC UTILITIES COMMISSION
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN
NET POSITION BY DEPARTMENT
YEAR ENDED DECEMBER 31, 2024

	Electric	Water	Wastewater	Total
OPERATING REVENUES				
Sales	\$ 4,576,814	\$ 441,814	\$ 578,879	\$ 5,597,507
Other Operating Revenues	-	309,295	360,707	670,002
Total Operating Revenues	4,576,814	751,109	939,586	6,267,509
OPERATING EXPENSES				
Production:				
Personnel	-	61,545	-	61,545
Purchased Power	2,564,216	-	-	2,564,216
Insurance and Legal	26,097	486	-	26,583
Repairs and Maintenance	-	10,522	-	10,522
Other Services and Charges	-	7,860	-	7,860
Depreciation/ Amortization	115,500	2,052	-	117,552
Total Production Expenses	2,705,813	82,465	-	2,788,278
Distribution/Collection:				
Personnel	680,768	106,427	268,129	1,055,324
Insurance and Legal	6,647	868	3,370	10,885
Repairs and Maintenance	168,719	293,045	74,739	536,503
Other Services and Charges	34,530	6,628	4,937	46,095
Depreciation/ Amortization	46,247	36,746	47,562	130,555
Total Distribution Expenses	936,911	443,714	398,737	1,779,362
General and Administrative:				
Insurance and Legal	10,915	7,765	6,142	24,822
Other Services and Charges	62,635	22,294	23,476	108,405
Depreciation/ Amortization	35,231	6,186	1,603	43,020
Total General and Administrative Expenses	108,781	36,245	31,221	176,247
Total Operating Expenses	3,751,505	562,424	429,958	4,743,887
OPERATING INCOME (EXPENSE)	825,309	188,685	509,628	1,523,622
OTHER INCOME (EXPENSE)				
Investment Earnings	177,183	-	-	177,183
Intergovernmental Revenues	9,375	1,820	3,636	14,831
Gain on Sale of Assets	(45,750)	-	-	(45,750)
Total Other Income (Expense)	140,808	1,820	3,636	146,264
INCOME BEFORE CAPITAL CONTRIBUTIONS AND PAYMENTS TO PRIMARY GOVERNMENT	966,117	190,505	513,264	1,669,886
PAYMENTS TO PRIMARY GOVERNMENT (CITY OF AITKIN)	(156,000)	(137,746)	(157,633)	(451,379)
INCOME (EXPENSE) BEFORE PAYMENT OF REVENUE TO PRIMARY GOVERNMENT	810,117	52,759	355,631	1,218,507
REVENUE PAYMENT TO PRIMARY GOVERNMENT (CITY OF AITKIN)	-	-	(69,424)	(69,424)
CHANGE IN NET POSITION	\$ 810,117	\$ 52,759	\$ 286,207	\$ 1,149,083

OTHER REPORT SECTION



INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE

Board of Commissioners
Aitkin Public Utilities Commission
City of Aitkin
Aitkin, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the Aitkin Public Utilities Commission (APU), a component of the City of Aitkin, Minnesota, as of and for the year ended December 31, 2024, and the related notes to the financial statements which collectively comprise APU's basic financial statements as listed in the table of contents and have issued our report thereon dated February 20, 2025.

In connection with our audit, nothing came to our attention that caused us to believe that APU failed to comply with the provisions of the contracting – bid laws, depositories of public funds and public investments, conflicts of interest, claims and disbursements, and miscellaneous provisions sections of the *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*, 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 APU's noncompliance with the above referenced provisions, insofar as they relate to accounting matters.

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

CliftonLarsonAllen LLP

Brainerd, Minnesota
February 20, 2025

FORM OF LEGAL OPINION

(See following pages)

FRYBERGER

— LAW FIRM —

December 18, 2025

City of Aitkin
130 Southgate Drive, Suite 200
Aitkin, MN 56431

[PURCHASER TBD]

**RE: City of Aitkin, Minnesota
\$3,105,000 General Obligation Sewage Disposal System Bonds,
Series 2025B**

We have acted as Bond Counsel in connection with the authorization, issuance and delivery by the City of Aitkin, Aitkin County, Minnesota (the “Issuer”), of the above-referenced bonds dated the date hereof (the “Bonds”). The Bonds are issued pursuant to Minnesota Statutes, Section 115.46 and Chapter 475.

A. Scope of Examination. For the purpose of rendering this opinion letter, we have examined the following:

1. a resolution of the Issuer adopted on December 1, 2025, authorizing the issuance and delivery of the Bonds (the “Resolution”);
2. the Officers’ Certificate of the Issuer dated the date hereof setting forth and certifying as to certain matters, including but not limited to the use and investment of the proceeds of the Bonds (the “Tax Certificate”);
3. applicable law and certified copies of certain proceedings taken, and certain affidavits and certificates furnished by the Issuer and others with respect to the authorization, sale and issuance of the Bonds; and
4. such other documents as we consider necessary in order to render this opinion.

B. Reliance. As to questions of fact material to our opinion, we have relied upon certified proceedings, documents and certifications furnished to us by public officials and officers of the Issuer and others without undertaking to verify such facts by independent investigation. We have also relied, without independent investigation, upon representations and certifications made by the Issuer in the Tax Certificate and the representations and certifications made by the Issuer, agents of the Issuer and others in connection with the

FRYBERGER, BUCHANAN, SMITH & FREDERICK, P.A

CLOQUET
813 Cloquet Ave.
Cloquet, MN 55720
p: (218) 879-6830

DULUTH
302 West Superior St,
Ste 700
Duluth, MN 55802
p: (218) 722-0861

SUPERIOR
1409 Hammond Ave., Suite 330
Superior, WI 54880
p: (715)392-7405

ST. PAUL
c/o 302 West Superior St,
Ste 700
Duluth, MN 55802
p: (651)221-1044

issuance of the Bonds as to: (a) the nature, cost, use and useful economic life of the facilities and/or improvements financed by the Bonds, (b) the application to be made of the proceeds of the Bonds, (c) the investment of such proceeds and (d) other matters material to the tax-exempt status of the interest borne by the Bonds, including the anticipated sources of repayment of the Bonds.

C. Assumptions.

1. In rendering the opinions contained in Section D below, we have assumed: (a) the legal capacity for all purposes relevant hereto of all natural persons, (b) with respect to all parties to agreements or instruments relevant hereto other than the Issuer, that such parties had the requisite power and authority (corporate or otherwise) to execute, deliver and perform such agreements or instruments, (c) that such agreements or instruments are the valid, binding and enforceable obligations of each such party, other than the Issuer, (d) the authenticity of all documents submitted to us as originals and the authenticity of the originals, (e) the conformity to original documents of all documents submitted to us as certified or photostatic copies, (f) the genuineness of the signatures on all documents submitted to us, and (g) the accuracy of the facts and representations stated in all documents submitted to us.

2. In rendering the opinions contained in paragraphs 3 and 4 of Section D below, we have assumed that the proceeds of the Bonds will be applied in accordance with the provisions of the Resolution and the representations made by the Issuer in the Tax Certificate and that the Issuer will make or cause to be made any necessary calculations and pay to the United States any amounts required under Section 148 of the Internal Revenue Code of 1986, as amended (the "Code").

3. For the purpose of rendering the opinion set forth in paragraph 3 of Section D, below, we have also assumed compliance by the Issuer with requirements of the Code that must be satisfied subsequent to the issuance of the Bonds. The Issuer has covenanted to comply with each such requirement.

D. Opinions. Based upon such examination, assumptions and reliance, on the basis of federal and State of Minnesota (the "State") laws, regulations, rulings and decisions in effect on the date hereof, but excluding any pending legislation which may have a retroactive date prior to the date hereof, and subject to certain limitations set forth in Section E below, it is our opinion that:

1. The Bonds are valid and binding general obligations of the Issuer enforceable in accordance with their terms.

2. All taxable property in the territory of the Issuer is subject to ad valorem taxation without limitation as to rate or amount to pay the principal of and interest on the Bonds.

3. The Bonds, as of their date of issuance, bear interest which is (a) not includable in gross income of the recipient for federal income tax purposes or in taxable net income of individuals, trusts and estates for State income tax purposes; (b) includable in taxable income of corporations and financial institutions for purposes of State franchise tax; and (c) not an item of tax preference which is included in alternative minimum taxable income for purposes of the federal alternative minimum tax imposed on individuals or the State alternative minimum tax imposed on individuals, trusts and estates; however, such interest on the Bonds may affect the federal alternative minimum tax imposed on certain corporations

4. Based solely on factual representations by the Issuer, the Bonds have been designated by the Issuer as “qualified tax-exempt obligations” under and within the meaning of Section 265(b)(3)(b) of the Code.

E. Qualifications and Limitations. The opinions expressed in Section D above are subject to the following:

1. We express no opinion as to federal or state tax consequences arising from ownership of the Bonds other than as set forth in Section D hereof.

2. The rights of the owners and enforceability of the Bonds are subject to and may be limited by (a) state and federal laws, rulings, decisions and principles of equity affecting remedies, including (without limitation) concepts of materiality, reasonableness, good faith and fair dealing, and other similar doctrines affecting the enforceability of agreements generally (regardless of whether considered in a proceeding in equity or at law); (b) the effect of any applicable bankruptcy, moratorium, insolvency, reorganization, fraudulent conveyance or other similar laws affecting the enforcement of creditors’ or secured creditors’ rights or laws relating to creditors’ or secured creditors’ rights against public instrumentalities heretofore or hereafter enacted to the extent constitutionally applicable; (c) the exercise of judicial discretion in appropriate cases; and (d) federal and state securities laws and public policy relating thereto.

3. Failure by the Issuer to comply with applicable requirements of the Code could cause the interest on the Bonds to be includable in the gross income of the owners thereof for federal income taxation, either prospectively or retroactively to the date hereof.

4. Our opinions expressed in Section D above are limited to the law of the State and the federal law of the United States of America, and we assume no responsibility as to the applicability to this transaction, or the effect thereon, of the law of any other jurisdiction.

FRYBERGER LAW FIRM

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5. Except as expressly stated in this opinion, we express no opinion as to compliance with any federal securities laws or any state securities or Blue Sky laws.

6. This opinion is rendered as of the date set forth above and we express no opinion as to circumstances or events which may occur subsequent to such date.

7. The foregoing opinions are being furnished to you solely for your benefit and may not be relied upon by, nor may copies be delivered to, any other person without our prior written consent.

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

Respectfully submitted,

Fryberger, Buchanan, Smith & Frederick, P.A.

BOOK-ENTRY-ONLY SYSTEM

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

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

FORM OF CONTINUING DISCLOSURE CERTIFICATE

(See following pages)

LIMITED CONTINUING DISCLOSURE CERTIFICATE

This Limited Continuing Disclosure Certificate (the “Disclosure Certificate”) is executed and delivered by the City of Aitkin, Aitkin County, Minnesota (the “Issuer”) in connection with the issuance of the \$3,105,000 General Obligation Sewage Disposal System Bonds, Series 2025B, dated December 18, 2025 (the “Obligations”). The Obligations are being issued pursuant to a Resolution of the Issuer dated December 1, 2025 (the “Resolution”). The Issuer certifies (i) that it is the only obligated person with respect to the Obligations; and (ii) that on the date hereof, the Issuer is an obligated person with respect to less than \$10,000,000 aggregate amount of outstanding municipal securities, including the Obligations, and thus limited continuing disclosure pursuant to subparagraph (d)(2) of the Rule is required. The Issuer covenants and agrees as follows:

Section 1. (a) Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the Issuer for the benefit of the holders and beneficial owners of the Obligations and in order to assist the Participating Underwriter in complying with the Rule (defined below). References in this Disclosure Certificate to holders of the Obligations shall include the beneficial owners of the Obligations. This Disclosure Certificate constitutes the written understanding under the Rule.

(b) Filing Requirements. Any filing under this Disclosure Certificate must be made solely by transmitting such filing to the MSRB (defined herein) through the Electronic Municipal Market Access (“EMMA”) System at www.emma.msrb.org in the format prescribed by the MSRB. All documents provided to the MSRB shall be accompanied by the identifying information prescribed by the MSRB.

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

“Annual Report” means any Annual Report provided by the Issuer pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

“Audited Financial Statements” means the Issuer’s annual financial statements, which are currently prepared in accordance with generally accepted accounting principles (GAAP) for governmental units as prescribed by the Governmental Accounting Standards Board (GASB) and which the Issuer intends to continue to prepare in substantially the same form.

“Dissemination Agent” means such person from time to time designated in writing by the Issuer and which has filed with the Issuer a written acceptance of such designation.

“Financial Obligation” means, with respect to the Issuer a: (a) debt obligation; (b) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (c) guarantee of one of the foregoing. The term “Financial Obligation” shall not include municipal securities as to which a final official statement has been provided to the Municipal Securities Rulemaking Board consistent with this rule.

“IRS” means the Internal Revenue Service of the Department of the Treasury.

“Listed Events” means any of the events listed in Sections 5(a) and 5(b) of this Disclosure Certificate.

“MSRB” means the Municipal Securities Rulemaking Board, whose current address is 1300 I Street NW, Suite 1000, Washington, DC 20005.

“Official Statement” means the Official Statement, dated _____, 2025 delivered in connection with the original issuance and sale of the Obligations, together with any amendments thereto or supplements thereof.

“Participating Underwriter” means any of the original underwriter(s) of the Obligations required to comply with the Rule in connection with offering of the Obligations.

“Rule” means Rule 15c2-12(b)(5) adopted by the SEC under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“SEC” means the Securities and Exchange Commission or any successor to its functions governing state and municipal securities.

Section 3. Provision of Annual Reports.

(a) The Issuer shall, or shall cause the Dissemination Agent to, not later than 12 months after the end of the fiscal year (presently December 31), commencing with the fiscal year ended December 31, 2025, provide to the MSRB, filed in accordance with Section 1(b) of this Disclosure Certificate, an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate.

(b) Not later than 15 days prior to the date specified in subsection (a) for providing the Annual Report to the MSRB, the Issuer shall provide the Annual Report to the Dissemination Agent (if the Issuer is not the Dissemination Agent).

(c) If the Issuer is unable or fails to provide an Annual Report by the date required in subsection (a), the Issuer shall send in a timely manner a notice of such fact to the MSRB in the format prescribed by the MSRB, as described in Section 1(b) of this Disclosure Certificate.

Section 4. Content of Annual Reports. The Issuer’s financial information or operating data shall contain or consist of the audited financial statements of the Issuer for the prior fiscal year, prepared in accordance with generally accepted accounting principles as promulgated from time to time by the Governmental Accounting Standards Board.

Section 5. Reporting of Significant Events.

(a) The Issuer shall give, or cause to be given notice of the occurrence of any of the following events with respect to the Obligations, in a timely manner not in excess of ten business days after the occurrence of the event:

- (1) principal and interest payment delinquencies;
 - (2) unscheduled draws on debt service reserves reflecting financial difficulties;
 - (3) unscheduled draws on credit enhancements reflecting financial difficulties;
 - (4) substitution of credit or liquidity providers, if any, or their failure to perform;
 - (5) adverse tax opinions or the issuance by the IRS of proposed or final determinations of taxability or of a Notice of Proposed Issue (IRS Form 5701-TEB);
 - (6) tender offers;
 - (7) defeasances;
 - (8) rating changes;
 - (9) bankruptcy, insolvency, receivership or similar event of the Issuer;
- or
- (10) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation, any of which reflect financial difficulties.

(b) The Issuer shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Obligations, *if material*, in a timely manner not in excess of ten business days after the occurrence of the event:

- (1) non-payment related defaults;
- (2) unless described in (a)(5) above, other notices or determinations by the IRS with respect to the tax-exempt status of the Obligations, or other events affecting the tax-exempt status of the Obligations;
- (3) modifications to rights of holders of the Obligations;
- (4) bond calls;

(5) release, substitution or sale of property securing repayment of the Obligations;

(6) the consummation of a merger, consolidation or acquisition involving the Issuer or the sale of all or substantially all of the assets of the Issuer, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms;

(7) appointment of a successor or additional trustee or the change of name of a trustee; or

(8) incurrence of a Financial Obligation or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation, any of which affect security holders.

(c) For the purposes of the event identified in subsection (a)(9), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the Issuer in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Issuer, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan or reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Issuer.

(d) Whenever the Issuer obtains knowledge of the occurrence of a Listed Event under subsection (b), the Issuer shall as soon as possible determine if such event would constitute material information for holders of Obligations.

(e) Unless otherwise required by law, the Issuer shall submit the information in the format prescribed by the MSRB, as described in Section 1(b) of this Disclosure Certificate.

Section 6. Termination of Reporting Obligation. The Issuer's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Obligations.

Section 7. Dissemination Agent. The Issuer may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the Issuer pursuant to this Disclosure Certificate. If at any time there is not any other designated Dissemination Agent, the Issuer shall be the Dissemination Agent.

Section 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the Issuer may amend this Disclosure Certificate and any provision of this Disclosure Certificate may be waived if such amendment or waiver is supported by an opinion of nationally recognized bond counsel to the effect that such amendment or waiver would not, in and of itself, cause the undertaking herein to violate the Rule if such amendment or waiver had been effective on the date hereof but taking into account any subsequent change in or official interpretation of the Rule.

Section 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the Issuer from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the Issuer chooses to include any information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is specifically required by this Disclosure Certificate, the Issuer shall have no obligation under this Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 10. Default. In the event of a failure of the Issuer to comply with any provision of this Disclosure Certificate, any holder or beneficial owner of the Obligations may take such action as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Issuer to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an event of default under the Resolution, and the sole remedy under this Disclosure Certificate in the event of any failure of the Issuer to comply with this Disclosure Certificate shall be an action to compel performance.

Section 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the Issuer agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the Issuer under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Obligations.

Section 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Issuer, the Dissemination Agent, the Participating Underwriter and holders and beneficial owners from time to time of the Obligations, and shall create no rights in any other person or entity.

Section 13. Reserved Rights. The Issuer reserves the right to discontinue providing any information required under the Rule if a final determination should be made by a court of competent jurisdiction that the Rule is invalid or otherwise unlawful or, subject to the provisions of Section 8 hereof, to modify the undertaking under this Disclosure Certificate if the Issuer determines that such modification is required by the Rule or by a court of competent jurisdiction.

Dated as of December 18, 2025.

CITY OF AITKIN, MINNESOTA

By _____
Mayor

By _____
City Administrator

TERMS OF PROPOSAL

\$3,105,000* GENERAL OBLIGATION SEWAGE DISPOSAL SYSTEM BONDS, SERIES 2025B CITY OF AITKIN, MINNESOTA

Proposals for the purchase of \$3,105,000* General Obligation Sewage Disposal System Bonds, Series 2025B (the "Bonds") of the City of Aitkin, Minnesota (the "City") will be received at the offices of Ehlers and Associates, Inc. ("Ehlers"), 3001 Broadway Street, Suite 320, Minneapolis, Minnesota 55413, municipal advisors to the City, until 10:00 A.M., Central Time, and **ELECTRONIC PROPOSALS** will be received via **PARITY**, in the manner described below, until 10:00 A.M., Central Time, on December 1, 2025, at which time they will be opened, read and tabulated. The proposals will be presented to the City Council for consideration for award by resolution at a meeting to be held at 6:00 P.M., Central Time, on the same date. The proposal offering to purchase the Bonds upon the terms specified herein and most favorable to the City will be accepted unless all proposals are rejected.

AUTHORITY; PURPOSE; SECURITY

The Bonds are being issued pursuant to Minnesota Statutes, Section 115.46 and Chapter 475, as amended, by the City, to finance the construction of various improvements to the municipal sewer system in the City. The Bonds will be general obligations of the City for which its full faith and credit and taxing powers are pledged.

DATES AND MATURITIES

The Bonds will be dated December 18, 2025, will be issued as fully registered Bonds in the denomination of \$5,000 each, or any integral multiple thereof, and will mature on February 1 as follows:

<u>Year</u>	<u>Amount*</u>	<u>Year</u>	<u>Amount*</u>	<u>Year</u>	<u>Amount*</u>
2027	\$95,000	2034	\$140,000	2041	\$180,000
2028	115,000	2035	140,000	2042	185,000
2029	120,000	2036	145,000	2043	195,000
2030	120,000	2037	155,000	2044	200,000
2031	125,000	2038	160,000	2045	210,000
2032	130,000	2039	165,000	2046	220,000
2033	135,000	2040	170,000		

ADJUSTMENT OPTION

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

TERM BOND OPTION

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

INTEREST PAYMENT DATES AND RATES

Interest will be payable on February 1 and August 1 of each year, commencing August 1, 2026, to the registered owners of the Bonds appearing of record in the bond register as of the close of business on the 15th day (whether or not a business day) of the immediately preceding month. Interest will be computed upon the basis of a 360-day year of twelve 30-day months and will be rounded pursuant to rules of the Municipal Securities Rulemaking Board. **The rate for any maturity may not be more than 1.00% less than the rate for any preceding maturity. (For example, if a rate of 4.50% is proposed for the 2027 maturity, then the lowest rate that may be proposed for any later maturity is 3.50%.)** All Bonds of the same maturity must bear interest from date of issue until paid at a single, uniform rate. Each rate must be expressed in an integral multiple of 5/100 or 1/8 of 1%.

BOOK-ENTRY-ONLY FORMAT

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

PAYING AGENT

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

OPTIONAL REDEMPTION

At the option of the City, the Bonds maturing on or after February 1, 2037 shall be subject to optional redemption prior to maturity on February 1, 2036 or any date thereafter, at a price of par plus accrued interest to the date of optional redemption.

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

DELIVERY

On or about December 18, 2025, the Bonds will be delivered without cost to the winning bidder at DTC. On the day of closing, the City will furnish to the winning bidder the opinion of bond counsel hereinafter described, an arbitrage certification, and certificates verifying that no litigation in any manner questioning the validity of the Bonds is then pending or, to the best knowledge of officers of the City, threatened. Payment for the Bonds must be received by the City at its designated depository on the date of closing in immediately available funds.

LEGAL MATTERS

Legal matters incident to the issuance and sale of the Bonds and with regard to the tax-exempt status of interest on the Bonds under existing laws are subject to the approving legal opinion of Fryberger, Buchanan, Smith & Frederick, P.A., as Bond Counsel to the City. Bond Counsel has not examined nor attempted to examine or verify any of the financial or statistical statements or data contained in the Official Statement and will express no opinions with respect to such information. Additionally, except for statements on the cover page of the Official Statement and under the caption "TAX EXEMPTION" relating to Bond Counsel's opinion that the interest on the Bonds is not includable in gross income for federal income tax purposes, Bond Counsel has not independently verified any of the factual information contained in the Official Statement nor have they conducted an investigation of the affairs of the City for the purpose of passing upon the accuracy or completeness of the Official Statement. No person is entitled to rely upon their limited participation as an assumption of responsibility for, or an expression of opinion of any kind with regard to, the accuracy or completeness of any of the information contained in the Official Statement. See "FORM OF LEGAL OPINION" found in Appendix C.

SUBMISSION OF PROPOSALS

Proposals must not be for less than \$3,067,740 plus accrued interest on the principal sum of \$3,105,000 from date of original issue of the Bonds to date of delivery. Prior to the time established above for the opening of proposals, interested parties may submit a proposal as follows:

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

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

A good faith deposit ("Deposit") in the amount of \$62,100 shall be made by the winning bidder by wire transfer of funds. Such Deposit shall be received by Ehlers no later than two hours after the proposal opening time. Wire transfer instructions will be provided to the winning bidder by Ehlers after the tabulation of proposals. The City reserves the right to award the Bonds to a winning bidder whose wire transfer is initiated but not received by such time provided that such winning bidder's federal wire reference number has been received by such time. In the event the Deposit is not received as provided above, the City may award the Bonds to the bidder submitting the next best proposal provided such bidder agrees to such award. The Deposit will be retained by the City as liquidated damages if the proposal is accepted and the Purchaser fails to comply therewith.

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

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

AWARD

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

BOND INSURANCE

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

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

CUSIP NUMBERS

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

QUALIFIED TAX-EXEMPT OBLIGATIONS

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

CONTINUING DISCLOSURE

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

NEW ISSUE PRICING

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

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

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

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

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

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

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

- (1) the close of the fifth (5th) business day after the sale date; or
- (2) the date on which the underwriters have sold at least 10% of that maturity of the Bonds to the public at a price that is no higher than the initial offering price to the public.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

PRELIMINARY OFFICIAL STATEMENT

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

Information for bidders and proposal forms may be obtained from Ehlers at 3001 Broadway Street, Suite 320, Minneapolis, Minnesota 55413, Telephone (651) 697-8500.

By Order of the City Council

City of Aitkin, Minnesota

PROPOSAL FORM

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

December 1, 2025

RE: \$3,105,000* General Obligation Sewage Disposal System Bonds, Series 2025B (the "Bonds")
DATED: December 18, 2025

For all or none of the above Bonds, in accordance with the Terms of Proposal and terms of the Global Book-Entry System (unless otherwise specified by the Purchaser) as stated in this Official Statement, we will pay you \$_____ (not less than \$3,067,740) plus accrued interest to date of delivery for fully registered Bonds bearing interest rates and maturing in the stated years as follows:

_____ % due	2027	_____ % due	2034	_____ % due	2041
_____ % due	2028	_____ % due	2035	_____ % due	2042
_____ % due	2029	_____ % due	2036	_____ % due	2043
_____ % due	2030	_____ % due	2037	_____ % due	2044
_____ % due	2031	_____ % due	2038	_____ % due	2045
_____ % due	2032	_____ % due	2039	_____ % due	2046
_____ % due	2033	_____ % due	2040		

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

The rate for any maturity may not be more than 1.00% less than the rate for any preceding maturity. (For example, if a rate of 4.50% is proposed for the 2027 maturity, then the lowest rate that may be proposed for any later maturity is 3.50%.) All Bonds of the same maturity must bear interest from date of issue until paid at a single, uniform rate. Each rate must be expressed in an integral multiple of 5/100 or 1/8 of 1%.

A good faith deposit ("Deposit") in the amount of \$62,100 shall be made by the winning bidder by wire transfer of funds. Such Deposit shall be received by Ehlers no later than two hours after the proposal opening time. Wire transfer instructions will be provided to the winning bidder by Ehlers after the tabulation of proposals. The City reserves the right to award the Bonds to a winning bidder whose wire transfer is initiated but not received by such time provided that such winning bidder's federal wire reference number has been received by such time. In the event the Deposit is not received as provided above, the City may award the Bonds to the bidder submitting the next best proposal provided such bidder agrees to such award. The Deposit will be retained by the City as liquidated damages if the proposal is accepted and the Purchaser fails to comply therewith. We agree to the conditions and duties of Ehlers and Associates, Inc., as escrow holder of the Deposit, pursuant to the Terms of Proposal. This proposal is for prompt acceptance and is conditional upon delivery of said Bonds to The Depository Trust Company, New York, New York, in accordance with the Terms of Proposal. Delivery is anticipated to be on or about December 18, 2025.

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

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

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

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

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

Account Manager: _____ By: _____
Account Members: _____

Award will be on a true interest cost basis. According to our computations (the correct computation being controlling in the award), the total dollar interest cost (including any discount or less any premium) computed from December 18, 2025 of the above proposal is \$_____ and the true interest cost (TIC) is _____%.

The foregoing offer is hereby accepted by and on behalf of the City Council of the City of Aitkin, Minnesota, on December 1, 2025.

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