

City of Scandia, Minnesota

Audited Financial Statements

For The Year Ended
December 31, 2023

**SCHLENNER
WENNER & CO.**
CPAs

**CITY OF SCANDIA, MINNESOTA
TABLE OF CONTENTS**

INTRODUCTORY SECTION:

CITY COUNCIL AND OFFICIALS 2

FINANCIAL SECTION:

INDEPENDENT AUDITOR’S REPORT 4

REQUIRED SUPPLEMENTARY INFORMATION:

Management’s Discussion and Analysis 8

BASIC FINANCIAL STATEMENTS:

Government-wide Financial Statements

Statement of Net Position 19

Statement of Activities 20

Fund Financial Statements

Balance Sheet – Governmental Funds 21

Reconciliation of the Balance Sheet – Governmental Funds
to the Statement of Net Position 23

Statement of Revenues, Expenditures,
and Changes in Fund Balances – Governmental Funds 24

Reconciliation of Changes in Fund Balances of
Governmental Funds to the Statement of Activities 26

Statement of Net Position – Proprietary Funds 27

Statement of Revenues, Expenses, and
Changes in Net Position – Proprietary Funds 28

Statement of Cash Flows – Proprietary Funds 29

Notes to the Basic Financial Statements 31

REQUIRED SUPPLEMENTARY INFORMATION:

Budgetary Comparison Schedule – General Fund 59

Schedule of City’s Proportionate Share of Net Pension Liability 61

Schedule of City Pension Contributions 62

Schedule of Changes in Net Pension Liability (Asset) 63

Notes to the Required Supplementary Information 64

SUPPLEMENTARY INFORMATION:

Supplemental Combining Balance Sheet – Major Governmental Fund – Debt Service Fund 70

Supplemental Combining Schedule of Revenues, Expenditures, and
Changes in Fund Balance – Major Governmental Fund – Debt Service Fund 71

Combining Balance Sheet – All Nonmajor Governmental Funds 72

Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances – All Nonmajor Governmental Funds 73

Schedule of Indebtedness 74

OTHER REQUIRED REPORTS:

Independent Auditor’s Report on Internal Control Over Financial
Reporting and on Compliance and Other Matters Based on an
Audit of Financial Statements Performed in Accordance with
Government Auditing Standards 76

Schedule of Findings and Responses 78

Corrective Action Plans 80

**INTRODUCTORY
SECTION**

**CITY OF SCANDIA, MINNESOTA
CITY COUNCIL AND OFFICIALS
FOR THE YEAR ENDED DECEMBER 31, 2023**

CITY COUNCIL		<u>Term Expires</u>
Christine Maefsky	Mayor	December 31, 2024
Heather Benson	Council Member	December 31, 2024
Jerry Cusick	Council Member	December 31, 2026
Steve Kronmiller	Council Member	December 31, 2024
Mike Lubke	Council Member	December 31, 2026
 CITY OFFICIALS		
Kyle Morell	City Administrator	
Colleen Firkus	Treasurer	

**FINANCIAL
SECTION**

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council
City of Scandia, 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, each major fund, and the aggregate remaining fund information of the City of Scandia, Minnesota (the City), as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Scandia, Minnesota, as of December 31, 2023, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter

As discussed in Note 6.D. to the financial statements, the 2022 financial statements have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with 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.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Required Supplementary Information

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

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 accompanying introductory section, combining and individual nonmajor governmental funds financial statements and supplemental schedules, and schedule of indebtedness are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor governmental funds financial statements and supplemental schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. 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 financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor governmental funds financial statements and supplemental schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 12, 2024, on our consideration of the City of Scandia'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 of Scandia's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Schlenner Wenner & Co." in dark ink.

SCHLENNER WENNER & CO.

St. Cloud, Minnesota

April 12, 2024

**REQUIRED SUPPLEMENTARY
INFORMATION**

**CITY OF SCANDIA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2023**

Our discussion and analysis of the City of Scandia's financial performance provides an overview of the City's financial activities for the year ended December 31, 2023. Please read it in conjunction with the independent auditor's report on page four and the City's financial statements, which begin on page nineteen.

FINANCIAL HIGHLIGHTS

- The City's net position increased \$405,446 compared to the prior year as a result of this year's operations.
- The City's General Fund generated more revenue than budgeted by \$62,307. Expenditures were less than budgeted by \$68,159, excluding transfers to other funds. See additional detail pertaining to differences between budgeted and actual amounts at the General Fund's Budgetary Comparison Schedule on page fifty-nine.
- The unassigned fund balance in the General Fund of \$1,336,309 is 61.23 percent of the 2023 General Fund budgeted expenditures, excluding budgeted transfers to other funds.
- In the City's Sewer utility funds, revenues increased \$40,857 (or 31.15 percent), while operating expenses increased \$8,440 (or 6.09 percent). The City's utility funds ended 2023 with a net gain of \$24,990, with the cash position decreasing \$11,276.
- During the year ended December 31, 2023, the City determined an adjustment to opening equity was necessary to correct an error identified in the City's prior year financial statements. See additional information related to this correction at Note 6.D. As a result of this correction, certain prior year information presented throughout the Management's Discussion and Analysis section has been restated.

USING THIS ANNUAL REPORT

This annual report consists of series of financial statements. The Statement of Net Position and the Statement of Activities (on pages nineteen and twenty) provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements start on page twenty-one. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds.

Reporting the City as a Whole

Our analysis of the City as a whole begins on page ten. One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets, liabilities and deferred outflows/inflows of resources using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's net position and changes net position. You can think of the City's net position (the difference between assets and liabilities, adjusted for deferred outflows/inflows) as one way to measure the City's financial health, or financial position. Over time, increases or decreases in the City's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the City's property tax base, costs associated with current and future construction projects, and the condition of the City's roads, to assess the overall health of the City.

**CITY OF SCANDIA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2023**

USING THIS ANNUAL REPORT (Continued)

In the Statement of Net Position and the Statement of Activities, we divide the City into two kinds of activities:

- **Governmental Activities** – Most of the City's basic services are reported here, including law enforcement, fire, public works, parks, planning, and general administration. Property taxes, special assessments, licenses, permits and fees, and state aids finance most of these activities.
- **Business-type Activities** – The City charges a fee to customers to help it cover all or most of the cost of certain services it provides. The City's Big Marine Sewer and Uptown Sewer systems are reported here.

Reporting the City's Most Significant Funds

Our analysis of the City's major funds begins on page thirteen. The fund financial statements begin on page twenty-one and provide detailed information about the most significant funds-not the City as a whole. Some funds are required to be established by State law and by bond covenants. However, the City Council may establish other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The City's two kinds of funds (governmental and proprietary) use different accounting approaches.

- **Governmental Funds** – Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in reconciliations following the fund financial statements.
- **Proprietary Funds** – When the City charges customers for the services it provides these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, the City's proprietary funds are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds.

**CITY OF SCANDIA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2023**

THE CITY AS A WHOLE

The City's combined net position increased \$405,446 from a year ago. Our analysis below focuses on the net position (Table 1) and changes in net position (Table 2) of the City's governmental and business-type activities.

**Table 1
Net Position**

	Governmental Activities		Business-Type Activities		Total Government	
	2023	2022 (Restated)	2023	2022	2023	2022 (Restated)
Current and Other Assets	\$ 3,866,031	\$ 4,627,615	\$ 98,856	\$ 96,305	\$ 3,964,887	\$ 4,723,920
Net Capital Assets	15,648,401	15,010,557	956,629	919,667	16,605,030	15,930,224
Total Assets	19,514,432	19,638,172	1,055,485	1,015,972	20,569,917	20,654,144
Deferred Outflows of Resources	318,680	315,010	6,876	8,418	325,556	323,428
Current Liabilities	513,927	576,245	12,550	9,073	526,477	585,318
Noncurrent Liabilities	3,238,607	3,794,931	24,527	23,663	3,263,134	3,818,594
Total Liabilities	3,752,534	4,371,176	37,077	32,736	3,789,611	4,403,912
Deferred Inflows of Resources	257,375	139,259	8,960	320	266,335	139,579
Net Position:						
Net Investment in						
Capital Assets	12,831,124	11,894,552	956,629	919,667	13,787,753	12,814,219
Restricted	735,531	528,521	-	-	735,531	528,521
Unrestricted	2,256,548	3,019,674	59,695	71,667	2,316,243	3,091,341
Total Net Position	<u>\$ 15,823,203</u>	<u>\$ 15,442,747</u>	<u>\$ 1,016,324</u>	<u>\$ 991,334</u>	<u>\$ 16,839,527</u>	<u>\$ 16,434,081</u>

The net position of the City's governmental activities increased by \$380,456 (or 2.47 percent). Unrestricted net position (the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements) decreased by \$763,126 (or 25.27 percent) compared to the prior year.

The net position of the City's business-type activities increased by \$24,990 (or 2.52 percent). The unrestricted portion of net position decreased by \$11,972 (16.71 percent), due to a greater net investment in capital assets in comparison to the prior year. Aside from this, operations were comparable to the prior year.

**CITY OF SCANDIA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2023**

THE CITY AS A WHOLE (Continued)

**Table 2
Changes in Net Position**

	Governmental Activities		Business-Type Activities		Total Government	
	2023	2022 (Restated)	2023	2022	2023	2022 (Restated)
REVENUE						
Charges for Services	\$ 292,526	\$ 245,200	\$ 169,712	\$ 127,225	\$ 462,238	\$ 372,425
Operating Grants and Contributions	115,760	64,871	-	-	115,760	64,871
Capital Grants and Contributions	(363)	4,652	403	3,425	40	8,077
Taxes	2,811,237	2,604,523	-	-	2,811,237	2,604,523
Intergovernmental	305,227	262,247	3	103	305,230	262,350
Franchise Fees	31,405	28,312	-	-	31,405	28,312
Investment Income	77,064	16,482	1,889	397	78,953	16,879
Other	11,977	14,752	-	-	11,977	14,752
Total Revenues	3,644,833	3,241,039	172,007	131,150	3,816,840	3,372,189
PROGRAM EXPENSES						
General Government	796,916	873,152	-	-	796,916	873,152
Public Safety	735,598	569,530	-	-	735,598	569,530
Public Works	1,433,277	1,228,071	-	-	1,433,277	1,228,071
Culture and Recreation	220,144	228,834	-	-	220,144	228,834
Economic Development	4,470	4,713	-	-	4,470	4,713
Debt Service	88,677	98,538	-	-	88,677	98,538
Big Marine Sewer	-	-	123,718	117,062	123,718	117,062
Uptown Sewer	-	-	23,299	21,515	23,299	21,515
Total Expenses	3,279,082	3,002,838	147,017	138,577	3,426,099	3,141,415
Gain (Loss) on Sale of Assets	14,705	-	-	-	14,705	-
Change in Net Position	380,456	238,201	24,990	(7,427)	405,446	230,774
Net Position - Beginning of Year	<u>15,442,747</u>	<u>15,204,546</u>	<u>991,334</u>	<u>998,761</u>	<u>16,434,081</u>	<u>16,203,307</u>
Net Position - End of Year	<u>\$ 15,823,203</u>	<u>\$ 15,442,747</u>	<u>\$ 1,016,324</u>	<u>\$ 991,334</u>	<u>\$ 16,839,527</u>	<u>\$ 16,434,081</u>

The City's total revenues increased by \$444,651 (or 13.19 percent). Operations were comparable to the prior year, but various changes of significance include:

- Charges for Services revenues increased by \$89,813 from 2022, primarily due to fees the City received from a local developer for building construction along with an increase in Sewer rates charged to customers in 2023.
- Revenues from taxes increased \$206,714 as a result of additional ad valorem property taxes levied for the year.

**CITY OF SCANDIA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2023**

THE CITY AS A WHOLE (Continued)

The total cost of all programs and services increased by \$284,684 (or 9.06 percent), primarily due to increases in Public Works program costs discussed below.

Our analysis below separately considers the operations of governmental and business-type activities:

Governmental Activities

Revenue for the City's governmental activities increased \$403,794 (or 12.46 percent), while total expenses increased by \$276,244 (or 9.20 percent). Revenues and expenses were generally consistent year to year, with the exception of the matters previously noted and discussed below.

Table 3 presents the cost of each of the City's programs (general government, public safety, public works, culture and recreation, economic development, and debt service) as well as each program's net cost (total cost less revenues generated by the activities). The net cost shows the financial burden that was placed on the City's taxpayers by each of these functions. Activities, net of capital outlay which is excluded from Table 3, were generally comparable to the prior year as operations remained fairly consistent with the prior year, with the exception of:

- General government net cost of services decreased \$83,948, largely due to expenses incurred in the prior year for the City's share of broadband infrastructure being installed throughout the City.
- Public safety net cost of services increased \$142,005 primarily due an increase in wage and salary costs, along with an increase in pension expenses recognized in the current year as a result of changes in actuarial calculations and assumptions for the statewide pension plans in which City employees participate.
- Public works net cost of services increased \$228,466 primarily due to an increase in engineering fees incurred for various projects during the year.
- Culture and Recreation net cost of services decreased \$93,325 primarily due to the City receiving various donations, grants, and park dedication fees in the current year.

**Table 3
Governmental Activities**

	Total Cost of Services		Net Cost of Services	
	2023	2022 (Restated)	2023	2022 (Restated)
General Government	\$ 796,916	\$ 873,152	\$ 763,961	\$ 847,909
Public Safety	735,598	569,530	478,751	336,746
Public Works	1,433,277	1,228,071	1,425,151	1,196,685
Culture and Recreation	220,144	228,834	110,949	204,274
Economic Development	4,470	4,713	3,670	3,963
Debt Service	88,677	98,538	88,677	98,538
Totals	<u>\$ 3,279,082</u>	<u>\$ 3,002,838</u>	<u>\$ 2,871,159</u>	<u>\$ 2,688,115</u>

Business-type Activities

Revenues of the City's business-type activities (see Table 2) increased by \$40,857 (or 31.15 percent). Expenses increased by \$8,440 (or 6.09 percent). Operations were comparable to those of the prior year, aside for an increase in sewer rates charged to customers in 2023.

**CITY OF SCANDIA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2023**

THE CITY'S FUNDS

Governmental Funds

As the City completed the year, its governmental funds (as presented in the balance sheet on page twenty-one) reported a combined fund balance of \$3,207,019. This is a decrease of \$525,278 (or 14.12 percent) from the prior year. This decrease in fund balance is the net result of a multitude of transactions, but a few of the largest contributing factors unique to the current year's operations are as follows:

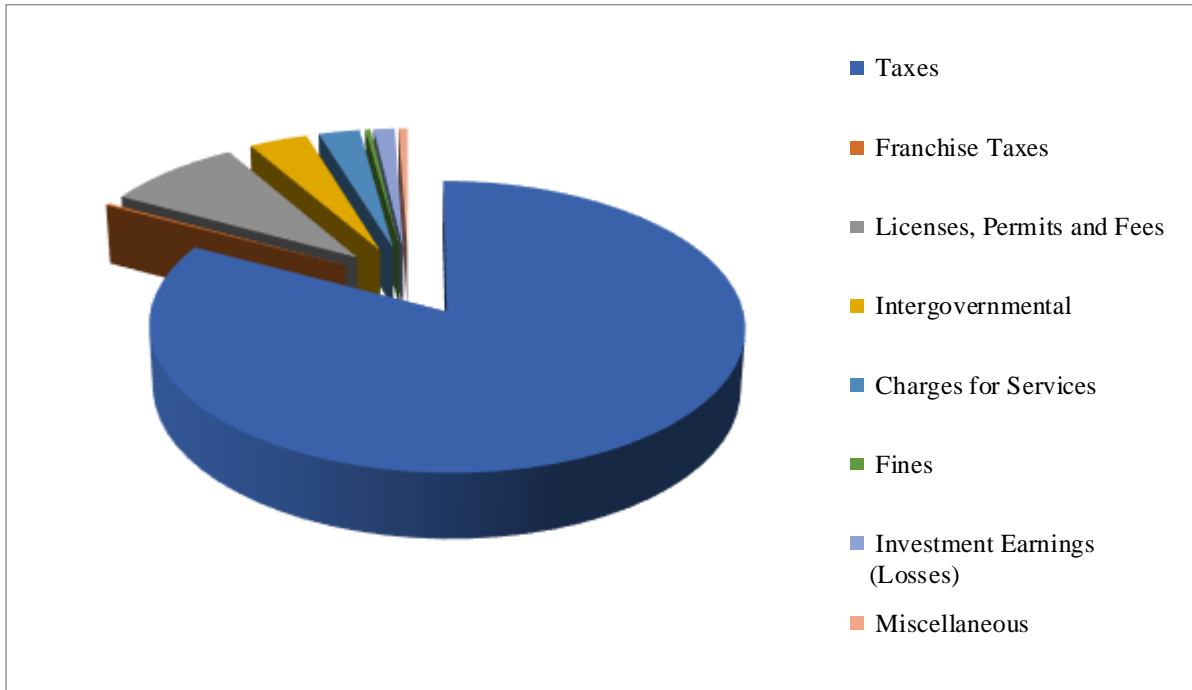
- Public safety program wage and salary expenditures increased, as previously discussed.
- Significant expenditures were incurred for capital outlay again in the current year, as discussed in greater detail below.

Other operations were comparable to the prior year. The following is a summary of the City's major governmental funds:

Major Funds	Fund Balance December 31,		Increase (Decrease)
	2023	2022	
General	\$ 1,359,642	\$ 1,349,787	\$ 9,855

The fund balance of the General Fund increased by \$9,855 as a result of current year operations. In comparison to the prior year, revenues increased 16.93 percent and expenditures increased 8.84 percent. Details of the General Fund's revenues and expenditures are displayed below:

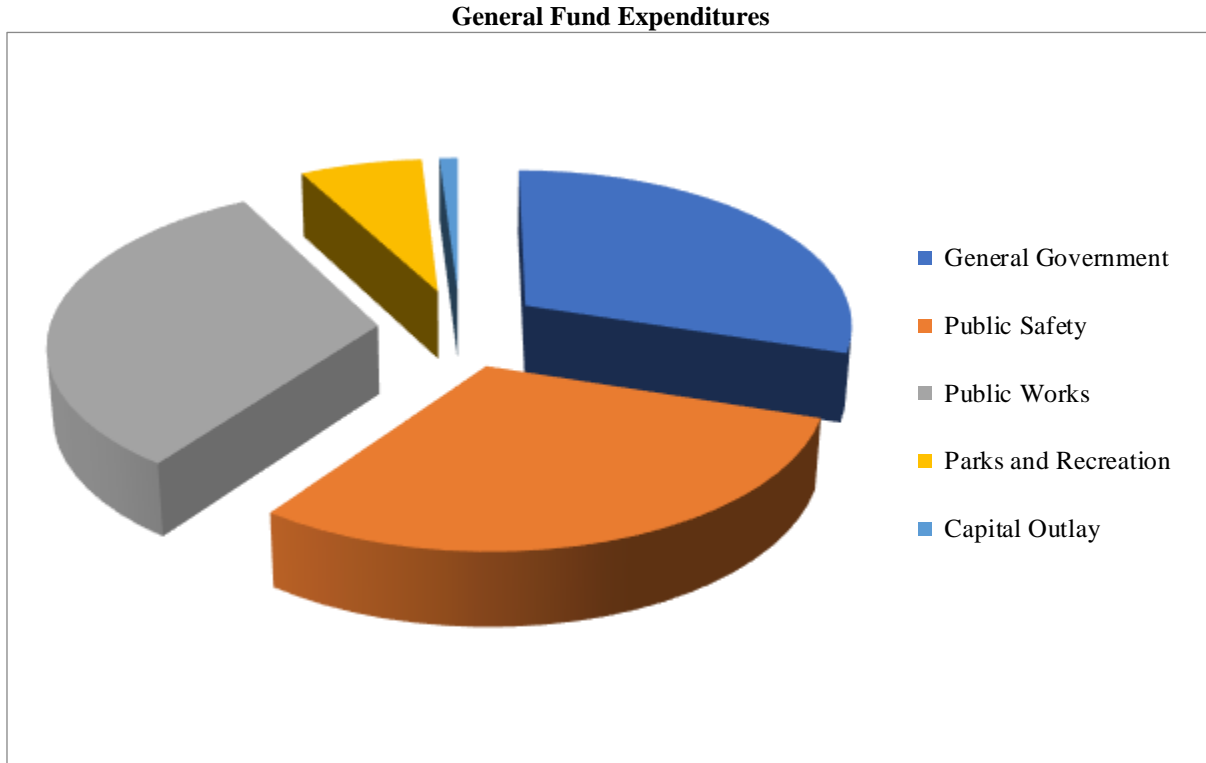
General Fund Revenues



The City receives the majority of its funding in the General Fund in the form of taxes (82.70 percent), licenses, permits, and fees (8.60 percent), intergovernmental (3.69 percent), and charges for services (2.58 percent). Overall, the City's General Fund revenues were comparable to the prior year, with the exception of matters previously discussed.

**CITY OF SCANDIA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2023**

THE CITY'S FUNDS (Continued)



A significant portion of the City's General Fund expenditures are used for public works (32.17 percent). Remaining expenditures are used primarily on public safety (30.02 percent) and general government operations (29.95 percent). Overall, the City's General Fund expenditures were comparable to the prior year.

General Fund Budgetary Highlights

The City's General Fund generated more revenue than budgeted of \$62,307. Expenditures, including transfers out to other funds, were more than those budgeted by \$78,461. See additional detail pertaining to differences between budgeted and actual amounts within the General Fund and at the Budgetary Comparison Schedule on page fifty-nine.

Major Funds	Fund Balance December 31,		Increase (Decrease)
	2023	2022	
Capital Improvement Fund	\$ 708,799	\$ 577,485	\$ 131,314

At December 31, 2023, the Capital Improvement Fund has a cash balance of \$782,892. The fund balance increased by \$131,314 during the current year primarily due to revenues from property taxes and intergovernmental sources exceeding capital expenditures. The beginning fund balance of the Capital Improvement Fund has been restated to correct a misstatement. See additional information at Note 6.D. to the financial statements.

**CITY OF SCANDIA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2023**

THE CITY'S FUNDS (Continued)

Major Funds	Fund Balance December 31,		Increase (Decrease)
	2023	2022	
Local Road Improvement Fund	\$ 100,002	\$ 896,739	\$ (796,737)

At December 31, 2023, the Local Road Improvement Fund has a cash balance of \$155,620. The fund balance decreased by \$797,737 primarily due to capital expenditures for street reconstruction projects exceeding the revenue sources for the fund.

Park Capital Improvement Fund	\$ 91,868	\$ 130,797	\$ (38,929)
--------------------------------------	-----------	------------	-------------

At December 31, 2023, the Park Capital Improvement Fund has a cash balance of \$63,928. The fund balance decreased by \$38,929 primarily due to capital expenditures for the playground project exceeding the revenue sources for the fund.

Debt Service Fund	\$ 94,334	\$ 74,157	\$ 20,177
--------------------------	-----------	-----------	-----------

At December 31, 2023, the Debt Service Fund has a cash balance of \$94,334. The fund balance increased by \$20,177 primarily due to revenues from property taxes exceeding the payment of principal and interest.

COVID Relief Fund	\$ 466,422	\$ 456,363	\$ 10,059
--------------------------	------------	------------	-----------

At December 31, 2023, the Covid Relief Fund has a cash balance of \$466,422. The fund balance increased by \$10,059 due to investment earnings recognized on Federal covid aid received in prior years that remains unspent.

Proprietary Funds

As the City completed the year, its business-type activities (as presented in the statement of net position on page twenty-seven) reported a combined net position of \$1,016,324. This is an increase of \$24,990 from the prior year. The following is a summary of the City's proprietary funds:

Funds	Net Position December 31,		Increase (Decrease)
	2023	2022	
Big Marine Sewer Fund	\$ 856,050	\$ 830,254	\$ 25,796

The Big Marine Sewer Fund provides sanitary sewer services to customers in the Anderson-Erickson and Bliss subdivisions. At December 31, 2023, the fund had a cash balance of \$54,245 with a decrease in cash of \$15,422 for the year. The decrease in cash is attributable to an increase in capital project activity. The fund's net position increased \$25,796 during the current year primarily due to revenues from charges for services and connection fees exceeding operating expenses.

Uptown Sewer Fund	\$ 160,274	\$ 161,080	\$ (806)
--------------------------	------------	------------	----------

The Uptown Sewer Fund provides sanitary sewer services to commercial customers near the Olinda Trail / Oakhill intersection. At December 31, 2023, the fund had a cash balance of \$18,168 with an increase in cash of \$4,146 for the year. The increase in cash is attributable to an increase in charges for services revenues in the current year. The fund's net position decreased \$806 during the year as a result of operating expenses exceeding revenues from charges for services.

**CITY OF SCANDIA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2023**

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2023, the City had \$16,605,030 invested in a broad range of capital assets, including land, buildings, equipment and vehicles, infrastructure, improvements, and sewer systems. This amount represents a net increase of \$674,806 (or 4.24 percent) from last year.

**Table 4
Capital Assets Net of Depreciation**

	Governmental Activities		Business-Type Activities		Totals	
	2023	2022	2023	2022	2023	2022
Land	\$ 487,735	\$ 487,735	\$ -	\$ -	\$ 487,735	\$ 487,735
Construction In Progress	113,028	622,277	104,906	21,088	217,934	643,365
Buildings	1,070,730	1,124,127	-	-	1,070,730	1,124,127
Equipment	882,641	683,948	215,475	227,455	1,098,116	911,403
Vehicles	617,804	708,236	-	-	617,804	708,236
Infrastructure	12,161,008	11,253,829	-	-	12,161,008	11,253,829
Other Improvements	315,455	130,405	-	-	315,455	130,405
Sewer Plant	-	-	480,000	510,000	480,000	510,000
Uptown Sewer	-	-	156,248	161,124	156,248	161,124
Totals	<u>\$15,648,401</u>	<u>\$15,010,557</u>	<u>\$ 956,629</u>	<u>\$ 919,667</u>	<u>\$16,605,030</u>	<u>\$15,930,224</u>

Significant capital asset acquisitions during 2023 were:

- Capital outlay for 2023 street improvement project - \$739,799

More detailed information about the City's capital assets is presented in Note 2.B. to the financial statements.

Debt

In 2023, the City paid off \$295,000 of the \$3,075,000 in debt that was outstanding at December 31, 2022. The City did not issue any new debt during 2023, bringing the total year-end balance of debt outstanding at December 31, 2023 to \$2,780,000. See additional information at Note 2.C. to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials considered many factors when setting the year 2024 budget, including tax rates and fees that will be charged for business-type activities. The 2024 tax levy increased 6.89% from \$2,803,556 in 2023 to \$2,996,852 in 2024. The City's tax rate increased 0.66% from 26.460% to 26.633%, mainly due to increased tax capacity from increased home valuations. The net effect on the local tax rate was an increase of 0.174%. The 2024 Assessment report from Washington County reports a decrease in property values for 2024. This decrease in City value will have a significant effect on spending in 2024 and the City's 2025 budget.

The City's continued use of a long-term financial management plan will help it predict tax rates, fee revenues, and estimated costs by using information on economic conditions, including inflationary estimates and trends in property assessment with their effect on expenditures and revenues. Prioritizing Capital Investments and utilizing levies combined with debt will be key factors to consider for the City's capital expenditures.

Sewer rates were adjusted by 25% for the Big Marine and Uptown Sewer Utilities. In addition to increased utility rates, the City continues to seek funding options through state grants and loan programs and the allocation of American Rescue Plan Act funds to pay for the state-mandated Bliss Nitrate Treatment Projects and other sewer infrastructure repairs and replacements.

**CITY OF SCANDIA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2023**

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City of Scandia, 14727 209th Street N, Scandia, MN 55073.

BASIC FINANCIAL STATEMENTS

**CITY OF SCANDIA, MINNESOTA
STATEMENT OF NET POSITION
DECEMBER 31, 2023**

	Governmental Activities	Business-Type Activities	Totals
ASSETS			
Cash and Cash Equivalents	\$ 3,487,273	\$ 72,413	\$ 3,559,686
Property Taxes Receivable	69,601	-	69,601
Assessments Receivable	29,160	7,058	36,218
Accounts Receivable	144,009	29,933	173,942
Interest Receivable	3,723	-	3,723
Internal Balances	10,548	(10,548)	-
Inventory	12,375	-	12,375
Prepays	10,958	-	10,958
Deposit on Asset	12,717	-	12,717
Noncurrent Assets:			
Capital Assets Not Being Depreciated	600,763	104,906	705,669
Capital Assets Being Depreciated (Net)	15,047,638	851,723	15,899,361
Net Pension Asset	85,667	-	85,667
TOTAL ASSETS	19,514,432	1,055,485	20,569,917
DEFERRED OUTFLOWS OF RESOURCES			
Pensions	318,680	6,876	325,556
LIABILITIES			
Accounts Payable	412,956	9,809	422,765
Salaries Payable	48,064	1,374	49,438
Accrued Interest Payable	1,754	-	1,754
Deposits Payable	50,428	-	50,428
Unearned Revenue	725	1,367	2,092
Noncurrent Liabilities:			
Amount Due Within One Year	287,996	-	287,996
Amount Due After One Year	2,572,277	-	2,572,277
Net Pension Liability	378,334	24,527	402,861
TOTAL LIABILITIES	3,752,534	37,077	3,789,611
DEFERRED INFLOWS OF RESOURCES			
Pensions	257,375	8,960	266,335
NET POSITION			
Net Investment in Capital Assets	12,831,124	956,629	13,787,753
Restricted	735,531	-	735,531
Unrestricted	2,256,548	59,695	2,316,243
TOTAL NET POSITION	\$ 15,823,203	\$ 1,016,324	\$ 16,839,527

**CITY OF SCANDIA, MINNESOTA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2023**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-Type Activities	
Governmental Activities:							
General Government	\$ 796,916	\$ 32,955	\$ -	\$ -	\$ (763,961)	\$ -	\$ (763,961)
Public Safety	735,598	207,319	49,528	-	(478,751)	-	(478,751)
Public Works	1,433,277	8,489	-	(363)	(1,425,151)	-	(1,425,151)
Culture and Recreation	220,144	42,963	66,232	-	(110,949)	-	(110,949)
Economic Development	4,470	800	-	-	(3,670)	-	(3,670)
Debt Service	88,677	-	-	-	(88,677)	-	(88,677)
Total Governmental Activities	3,279,082	292,526	115,760	(363)	(2,871,159)	-	(2,871,159)
Business-Type Activities:							
Big Marine Sewer	123,718	147,546	-	403	-	24,231	24,231
Uptown Sewer	23,299	22,166	-	-	-	(1,133)	(1,133)
Total Business-Type Activities	147,017	169,712	-	403	-	23,098	23,098
TOTALS	\$ 3,426,099	\$ 462,238	\$ 115,760	\$ 40	(2,871,159)	23,098	(2,848,061)
General Revenues:							
Taxes					2,811,237	-	2,811,237
Franchise and Other Tax					31,405	-	31,405
Intergovernmental					305,227	3	305,230
Investment Earnings (Losses)					77,064	1,889	78,953
Gain (Loss) on Sale of Assets					14,705	-	14,705
Miscellaneous					11,977	-	11,977
Total General Revenues					3,251,615	1,892	3,253,507
CHANGE IN NET POSITION					380,456	24,990	405,446
NET POSITION - BEGINNING OF YEAR (As Previously Reported)					15,429,997	991,334	16,421,331
PRIOR PERIOD ADJUSTMENT (See Note 6.D.)					12,750	-	12,750
NET POSITION - BEGINNING OF YEAR (As Restated)					15,442,747	991,334	16,434,081
NET POSITION - END OF YEAR					\$ 15,823,203	\$ 1,016,324	\$ 16,839,527

**CITY OF SCANDIA, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2023**

	General Fund	Capital Project			Debt Service Fund	COVID Relief Fund	Total Nonmajor Funds	Total Governmental Funds
		Capital Improvement Fund	Local Road Improvement Fund	Park Capital Improvement Fund				
ASSETS								
Cash and Cash Equivalents	\$ 1,542,588	\$ 782,892	\$ 155,620	\$ 63,928	\$ 94,334	\$ 466,422	\$ 381,489	\$ 3,487,273
Property Taxes Receivable	69,601	-	-	-	-	-	-	69,601
Assessments Receivable	-	-	29,160	-	-	-	-	29,160
Accounts Receivable	40,681	-	-	101,250	-	-	2,078	144,009
Interest Receivable	3,723	-	-	-	-	-	-	3,723
Inventory	12,375	-	-	-	-	-	-	12,375
Prepays	10,958	-	-	-	-	-	-	10,958
Deposit on Asset	-	-	-	-	-	-	12,717	12,717
Advances to Other Funds	-	28,548	-	-	-	-	-	28,548
TOTAL ASSETS	<u>\$ 1,679,926</u>	<u>\$ 811,440</u>	<u>\$ 184,780</u>	<u>\$ 165,178</u>	<u>\$ 94,334</u>	<u>\$ 466,422</u>	<u>\$ 396,284</u>	<u>\$ 3,798,364</u>
LIABILITIES								
Accounts Payable	\$ 171,008	\$ 102,641	\$ 55,665	\$ 73,310	\$ -	\$ -	\$ 10,332	\$ 412,956
Salaries Payable	48,064	-	-	-	-	-	-	48,064
Deposits Payable	50,428	-	-	-	-	-	-	50,428
Unearned Revenue	725	-	-	-	-	-	-	725
Advances from Other Funds	18,000	-	-	-	-	-	-	18,000
Total Liabilities	288,225	102,641	55,665	73,310	-	-	10,332	530,173
DEFERRED INFLOWS OF RESOURCES								
Unavailable Revenue:								
Property Taxes	32,059	-	-	-	-	-	-	32,059
Special Assessments	-	-	29,113	-	-	-	-	29,113
Total Deferred Inflows of Resources	32,059	-	29,113	-	-	-	-	61,172

CITY OF SCANDIA, MINNESOTA
BALANCE SHEET (Continued)
GOVERNMENTAL FUNDS
DECEMBER 31, 2023

	General Fund	Capital Project			Debt Service Fund	COVID Relief Fund	Total Nonmajor Funds	Total Governmental Funds
		Capital Improvement Fund	Local Road Improvement Fund	Park Capital Improvement Fund				
FUND BALANCES								
Nonspendable	\$ 23,333	\$ 28,548	\$ -	\$ -	\$ -	\$ -	\$ 12,717	\$ 64,598
Restricted	-	-	-	-	94,334	466,422	176,529	737,285
Committed	-	680,251	-	91,868	-	-	37,707	809,826
Assigned	-	-	100,002	-	-	-	158,999	259,001
Unassigned	1,336,309	-	-	-	-	-	-	1,336,309
Total Fund Balances	<u>1,359,642</u>	<u>708,799</u>	<u>100,002</u>	<u>91,868</u>	<u>94,334</u>	<u>466,422</u>	<u>385,952</u>	<u>3,207,019</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u>\$ 1,679,926</u>	<u>\$ 811,440</u>	<u>\$ 184,780</u>	<u>\$ 165,178</u>	<u>\$ 94,334</u>	<u>\$ 466,422</u>	<u>\$ 396,284</u>	<u>\$ 3,798,364</u>

**CITY OF SCANDIA, MINNESOTA
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2023**

Total Fund Balances - Governmental Funds	\$	3,207,019
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds:		
Capital Assets	\$ 25,384,574	
Accumulated Depreciation	<u>(9,736,173)</u>	
Capital Assets (Net)		15,648,401
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds Balance Sheet:		
Bonds and Equipment Certificates Principal Payable	(2,780,000)	
Bond Premium, Net of Accumulated Amortization	(37,277)	
Compensated Absences	<u>(42,996)</u>	
		(2,860,273)
The net pension asset/liability and related deferred outflows/inflows represent the allocation of the pension obligations of the statewide plans to the City. Such balances are not reported in the governmental funds:		
Net Pension Asset	85,667	
Net Pension Liability	(378,334)	
Deferred Outflows - Pensions	318,680	
Deferred Inflows - Pensions	<u>(257,375)</u>	
		(231,362)
Interest on long-term debt is recognized as an expenditure when due and payable in the governmental funds. Therefore, interest is not accrued in the governmental funds Balance Sheet, but is accrued in the Statement of Net Position:		
		(1,754)
Other long-term assets are not available to pay for current-period expenditures and, therefore, are reported as unavailable in the governmental funds:		
Property Taxes		32,059
Special Assessments		<u>29,113</u>
TOTAL NET POSITION OF GOVERNMENTAL ACTIVITIES	\$	<u>15,823,203</u>

CITY OF SCANDIA, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2023

	General Fund	Capital Project			Debt Service Fund	COVID Relief Fund	Total Nonmajor Funds	Total Governmental Funds
		Capital Improvement Fund	Local Road Improvement Fund	Park Capital Improvement Fund				
REVENUES								
Taxes	\$ 1,877,975	\$ 293,790	\$ 212,012	\$ 20,000	\$ 406,536	\$ -	\$ 5,300	\$ 2,815,613
Franchise Taxes	5,874	-	-	-	-	-	25,531	31,405
Special Assessments	-	-	197	-	-	-	-	197
Licenses, Permits, and Fees	195,194	-	-	-	-	-	-	195,194
Intergovernmental	83,775	56,232	-	101,250	-	-	176,529	417,786
Charges for Services	58,499	-	-	30,000	-	-	800	89,299
Fines	7,133	-	-	-	-	-	-	7,133
Interest Earnings (Losses)	29,798	15,886	11,889	3,146	1,291	10,059	4,995	77,064
Miscellaneous	12,577	-	-	10,000	-	-	19,451	42,028
TOTAL REVENUES	2,270,825	365,908	224,098	164,396	407,827	10,059	232,606	3,675,719
EXPENDITURES								
Current:								
General Government	633,330	-	-	-	-	-	16,134	649,464
Public Safety	634,771	-	-	-	-	-	-	634,771
Public Works	680,238	-	-	-	-	-	-	680,238
Parks and Recreation	144,544	31,200	-	4,500	-	-	-	180,244
Economic Development	-	-	-	-	-	-	4,470	4,470
Capital Outlay	21,467	203,394	1,020,835	345,445	-	-	73,019	1,664,160
Debt Service:								
Principal	-	-	-	-	295,000	-	-	295,000
Interest and Other Charges	-	-	-	-	92,650	-	-	92,650
TOTAL EXPENDITURES	2,114,350	234,594	1,020,835	349,945	387,650	-	93,623	4,200,997
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	156,475	131,314	(796,737)	(185,549)	20,177	10,059	138,983	(525,278)

CITY OF SCANDIA, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES (Continued)
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2023

	Capital Project			Debt Service Fund	COVID Relief Fund	Total Nonmajor Funds	Total Governmental Funds
	General Fund	Capital Improvement Fund	Local Road Improvement Fund				
OTHER FINANCING SOURCES (USES)							
Transfers In	\$ -	\$ -	\$ -	\$ 146,620	\$ -	\$ -	\$ 146,620
Transfers Out	(146,620)	-	-	-	-	-	(146,620)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(146,620)</u>	<u>-</u>	<u>-</u>	<u>146,620</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	9,855	131,314	(796,737)	(38,929)	20,177	10,059	138,983
FUND BALANCES - BEGINNING (As Previously Reported)	1,349,787	564,735	896,739	130,797	74,157	456,363	246,969
PRIOR PERIOD ADJUSTMENT (See Note 6.D.)	<u>-</u>	<u>12,750</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,750</u>
FUND BALANCES - BEGINNING (As Restated)	<u>1,349,787</u>	<u>577,485</u>	<u>896,739</u>	<u>130,797</u>	<u>74,157</u>	<u>456,363</u>	<u>246,969</u>
FUND BALANCES - ENDING	<u>\$ 1,359,642</u>	<u>\$ 708,799</u>	<u>\$ 100,002</u>	<u>\$ 91,868</u>	<u>\$ 94,334</u>	<u>\$ 466,422</u>	<u>\$ 385,952</u>

**CITY OF SCANDIA, MINNESOTA
RECONCILIATION OF CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2023**

Net Change in Fund Balances - Total Governmental Funds \$ (525,278)

Amounts reported for governmental activities in the Statement of Activities are different due to the following:

Capital outlays are reported in the governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense:

Capital Outlay Capitalized	\$ 1,340,104	
Depreciation Expense	(697,814)	
Loss on Disposal of Assets	<u>(4,446)</u>	
		637,844

The issuance of long-term debt provides current financial resources to governmental funds while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums and discounts when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. The amounts below detail the effects of these differences in the treatment of long-term debt and related items:

Bond Principal Repayments	295,000	
Amortization of Bond Premium	<u>3,728</u>	
		298,728

Interest on long-term debt in the Statement of Activities differs from the amounts reported in the governmental funds because interest is recognized as an expenditure in the funds only when it is due. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due:

245

Under the modified accrual basis of accounting, certain revenues cannot be recognized until they are available to liquidate liabilities of the current period:

Property Taxes	(4,376)	
Special Assessments	<u>(560)</u>	
		(4,936)

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 the governmental funds:

Compensated Absences		(17,001)
----------------------	--	----------

Certain liabilities do not represent the impending use of current resources.

Therefore, the change in such liabilities and related deferrals are not reported in the governmental funds:

Net Pension Asset/Liability and Deferred Outflows/Inflows of Resources		<u>(9,146)</u>
--	--	----------------

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 380,456

**CITY OF SCANDIA, MINNESOTA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2023**

	Nonmajor		Totals
	Big Marine Sewer Fund	Uptown Sewer Fund	
ASSETS			
Current Assets			
Cash and Cash Equivalents	\$ 54,245	\$ 18,168	\$ 72,413
Assessments Receivable	7,058	-	7,058
Accounts Receivable	24,762	5,171	29,933
Total Current Assets	<u>86,065</u>	<u>23,339</u>	<u>109,404</u>
Noncurrent Assets			
Capital Assets Not Being Depreciated	104,906	-	104,906
Capital Assets Being Depreciated (Net)	695,475	156,248	851,723
Total Noncurrent Assets	<u>800,381</u>	<u>156,248</u>	<u>956,629</u>
TOTAL ASSETS	<u>886,446</u>	<u>179,587</u>	<u>1,066,033</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pensions	4,839	2,037	6,876
LIABILITIES			
Current Liabilities			
Accounts Payable	9,391	418	9,809
Salaries Payable	962	412	1,374
Unearned Revenue	1,367	-	1,367
Total Current Liabilities	<u>11,720</u>	<u>830</u>	<u>12,550</u>
Noncurrent Liabilities			
Advances from Other Funds	-	10,548	10,548
Net Pension Liability	17,223	7,304	24,527
Total Noncurrent Liabilities	<u>17,223</u>	<u>17,852</u>	<u>35,075</u>
TOTAL LIABILITIES	<u>28,943</u>	<u>18,682</u>	<u>47,625</u>
DEFERRED INFLOWS OF RESOURCES			
Pensions	6,292	2,668	8,960
NET POSITION			
Net Investment in Capital Assets	800,381	156,248	956,629
Unrestricted	55,669	4,026	59,695
TOTAL NET POSITION	<u>\$ 856,050</u>	<u>\$ 160,274</u>	<u>\$ 1,016,324</u>

CITY OF SCANDIA, MINNESOTA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2023

	Nonmajor		Totals
	Big Marine Sewer Fund	Uptown Sewer Fund	
OPERATING REVENUES			
Charges for Services	\$ 139,546	\$ 22,166	\$ 161,712
OPERATING EXPENSES			
Wages and Benefits	31,048	13,443	44,491
Materials and Supplies	2,471	403	2,874
Repairs and Maintenance	15,141	1,940	17,081
Professional Services	9,200	733	9,933
Utilities	3,979	863	4,842
Miscellaneous	11,451	1,041	12,492
Depreciation	50,428	4,876	55,304
TOTAL OPERATING EXPENSES	<u>123,718</u>	<u>23,299</u>	<u>147,017</u>
NET OPERATING INCOME (LOSS)	15,828	(1,133)	14,695
NONOPERATING INCOME (EXPENSE)			
Special Assessments	403	-	403
Intergovernmental	2	1	3
Connection Fees	8,000	-	8,000
Investment Earnings (Losses)	1,563	326	1,889
TOTAL NONOPERATING INCOME (EXPENSE)	<u>9,968</u>	<u>327</u>	<u>10,295</u>
CHANGE IN NET POSITION	25,796	(806)	24,990
NET POSITION - BEGINNING OF YEAR	<u>830,254</u>	<u>161,080</u>	<u>991,334</u>
NET POSITION - END OF YEAR	<u>\$ 856,050</u>	<u>\$ 160,274</u>	<u>\$ 1,016,324</u>

**CITY OF SCANDIA, MINNESOTA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2023**

	Big Marine Sewer Fund	Nonmajor Uptown Sewer Fund	Totals
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Received from Customers	\$ 129,857	\$ 21,463	\$ 151,320
Cash Paid to Suppliers	(46,345)	(5,185)	(51,530)
Cash Paid to Employees	(23,609)	(9,819)	(33,428)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	59,903	6,459	66,362
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Intergovernmental	2	1	3
Other Receipts from Customers	8,000	-	8,000
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	8,002	1	8,003
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Special Assessments	403	-	403
Purchases of Capital Assets	(85,293)	-	(85,293)
Payments on Interfund Advances	-	(2,640)	(2,640)
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(84,890)	(2,640)	(87,530)
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment Income	1,563	326	1,889
Net Change in Cash and Cash Equivalents	(15,422)	4,146	(11,276)
Cash and Cash Equivalents - Beginning of Year	69,667	14,022	83,689
Cash and Cash Equivalents - End of Year	<u>\$ 54,245</u>	<u>\$ 18,168</u>	<u>\$ 72,413</u>

CITY OF SCANDIA, MINNESOTA
STATEMENT OF CASH FLOWS (Continued)
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2023

	Big Marine Sewer Fund	Nonmajor Uptown Sewer Fund	Totals
RECONCILIATION OF NET OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES			
Net Operating Income (Loss)	\$ 15,828	\$ (1,133)	\$ 14,695
Adjustments to Reconcile Net Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Depreciation Expense	50,428	4,876	55,304
Changes in Assets, Liabilities, and Deferrals:			
Accounts Receivable	(7,782)	(703)	(8,485)
Assessments Receivable	(2,702)	-	(2,702)
Accounts Payable	(4,103)	(205)	(4,308)
Salaries Payable	11	6	17
Unearned Revenue	795	-	795
Net Pension Liability	155	709	864
Deferred Outflows of Resources - Pensions	1,212	330	1,542
Deferred Inflows of Resources - Pensions	6,061	2,579	8,640
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 59,903	\$ 6,459	\$ 66,362
SCHEDULE OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchase of Capital Assets on Account	\$ 6,973	\$ -	\$ 6,973

CITY OF SCANDIA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Scandia, Minnesota (the City) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements.

The City has a mayor-council form of government that is governed by an elected mayor and four-member council. The City provides the following services: sanitation, recreation, public improvements, public safety, planning and zoning, and general administrative services.

1.A. FINANCIAL REPORTING ENTITY

The City's financial reporting entity is comprised of the primary governmental unit of the City of Scandia, Minnesota.

In determining the financial reporting entity, the City complies with the provisions of GASB Statement No. 14, *The Financial Reporting Entity*, and includes all component units of which the City appointed a voting majority of the units' board; the City is either able to impose its will on the unit or a financial benefit or burden relationship exists.

Blended Component Units

Blended component units are separate legal entities that meet the component unit criteria described above and whose governing body is the same or substantially the same as the City Council or the component unit provides services entirely to the City. These component units' funds are blended into those of the City's by appropriate activity type to compose the primary government presentation. Currently, the City has the following blended component unit:

Economic Development Authority – The City created an Economic Development Authority (EDA) by resolution of its City Council. The EDA is governed by a five-member board whose members are the same as those serving on the City Council. Although it is legally separate from the City, the EDA is reported as if it were part of the primary government because its purpose is to approve the City's redevelopment plans. The EDA cannot issue bonded debt without the City's approval.

Discretely Presented Component Units

Discretely presented component units are separate legal entities that meet the component unit criteria described above but do not meet the criteria for blending. Currently, the City has no discretely presented component units.

1.B. BASIS OF PRESENTATION

Government-wide Financial Statements

The Statement of Net Position and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds (of which the City has none). The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods and services.

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, deferred outflows, liabilities, deferred inflows, fund equity, revenues, and expenditures/expenses. Funds are organized into two major categories: governmental and proprietary. An emphasis is placed on major funds within the governmental and proprietary categories.

CITY OF SCANDIA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.B. BASIS OF PRESENTATION (Continued)

A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

- Total assets and deferred outflows, liabilities and deferred inflows, revenues or expenditures/expenses of that individual governmental or proprietary fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- Total assets and deferred outflows, liabilities and deferred inflows, revenues or expenditures/expenses of that individual governmental or proprietary fund are at least 5 percent of the corresponding total for all governmental and proprietary funds combined.

The City reports the following major governmental funds:

The *General Fund* is the primary operating fund of the City and is always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

The *Capital Improvement Fund* accounts for financial resources to be used for the acquisition or construction of capital projects (other than those financed by proprietary funds).

The *Local Road Improvement Fund* is a capital project fund used to account for financial resources to be used for the construction or improvement of roads within the City.

The *Park Capital Improvement Fund* is a capital project fund used to account for financial resources to be used for the construction or improvement of parks within the City.

The *Debt Service Fund* accounts for the accumulation of financial resources for the payment of interest and principal on general long-term debt of the City other than debt service payments made by proprietary funds. Ad valorem taxes and special assessments are used for the payment of principal and interest on the City's indebtedness.

The *COVID Relief Fund* is a special revenue fund used to account for financial resources that are to be used for pandemic response activities or related projects.

The City reports the following major proprietary fund:

The *Big Marine Sewer Fund* accounts for business-type activities related to the operation of a sewer system provided to the general public. These activities are financed primarily by user charges, and the measurement of financial activity focuses on the net income measurement similar to the private sector.

Additionally, the government reports the following nonmajor fund types:

The *Special Revenue Funds* account for funds received by the City with a specific purpose.

The *Capital Project Fund* accounts for financial resources to be used for the acquisition or construction of capital projects (other than projects financed by proprietary funds).

The *Uptown Sewer Fund* accounts for business-type activities related to the operation of a sewer system provided to the general public. These activities are financed primarily by user charges, and the measurement of financial activity focuses on the net income measurement similar to the private sector.

CITY OF SCANDIA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

Measurement Focus

On the government-wide Statement of Net Position and the Statement of Activities, both governmental and business-type activities are presented using the *economic resources* measurement focus as defined in the second bullet point below. In the fund financial statements, the *current financial resources* measurement focus or the *economic resources* measurement focus is used as appropriate:

- All governmental funds utilize a *current financial resources* measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- The government-wide financial statements and proprietary funds utilize an *economic resources* measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. All assets, deferred outflows, liabilities, and deferred inflows (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net position.

Basis of Accounting

In the government-wide Statement of Net Position and Statement of Activities, both governmental and business-type activities are presented using the *accrual* basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred, or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds are presented on the *modified accrual* basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when “measurable and available.” Measurable means knowing or being able to reasonable estimate the amount. Available means collectible within the current period or within sixty days after year end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

All proprietary funds utilize the accrual basis of accounting.

1.D BUDGETARY INFORMATION

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund. The appropriated budget is prepared by fund, function, and department. City of Scandia’s department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the Council. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the department level.

Appropriations in all budgeted funds lapse at the end of the fiscal year. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the appropriation, is not employed by the City because it is at present not considered necessary to assure effective budgetary control or to facilitate effective cash management.

CITY OF SCANDIA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.E. USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows, liabilities, and deferred inflows, and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

1.F. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, AND EQUITY

Cash and Cash Equivalents

For purposes of the Statement of Net Position and proprietary fund Statement of Cash Flows, “cash and cash equivalents” includes all demand, savings, certificates of deposit, and money market accounts for the City. Certificates of deposit are stated at cost, which approximates fair value.

See Note 2.A. for additional information related to Cash and Cash Equivalents.

Interfund Transactions and Balances

During the course of operations, transactions occur between individual funds that may result in amounts owed between funds. Those related to good and services type transactions are classified as “due to and from other fund.” Short-term interfund loans are reported as “due to and from other fund.” Long-term interfund loans are reported as “advances from and to other funds.” Interfund receivables and payables between funds within governmental activities, as well as interfund receivables and payables between funds within business-type activities are eliminated in the Statement of Net Position. See Note 2.D. for details of interfund transactions, including receivables and payables at year-end.

Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable and not deemed necessary at year end. Major receivable balances for the governmental activities include charges for services, fines, fees, taxes, and special assessments. Business-type activities report utility charges and assessments as their major receivables.

In the fund financial statements, material receivables in governmental funds include revenue accruals such as taxes, franchise fees, assessments, other intergovernmental revenues, fines, and charges for service since they are usually both measurable and available. Revenues collectible but not available are deferred in the fund financial statements in accordance with modified accrual, but not deferred in the government-wide financial statements in accordance with the accrual basis. Interest and investment earnings are recorded when earned only if paid within 60 days since they would be considered both measurable and available. Proprietary fund material receivables consist of all revenues earned at year-end and not yet received. Utility accounts receivable and assessments compose the majority of proprietary fund receivables. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable. No allowances are deemed necessary at year end.

Inventories

Inventory is valued at the lower of average cost or market based on physical counts. Inventory in the General Fund consists of expendable supplies held for consumption and is equally offset by a nonspendable fund balance classification. The cost of inventory is recorded as an expense when purchased and adjusted at year-end.

**CITY OF SCANDIA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.F. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, AND EQUITY (Continued)

Prepays

Prepays represent costs paid during the current year to be recognized in future periods.

Capital Assets

The accounting treatment over property, plant and equipment (capital assets) depends on whether the assets are used in governmental or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and must have an estimated useful life in excess of one year.

The range of estimated useful lives by type of asset is as follows:

Buildings and Structures	40 years
Machinery and Equipment	5-25 years
Vehicles	25 years
Infrastructure	50 years

Government-wide Statements

In the government-wide financial statements, capital outlay expenditures are accounted for as capital assets. All capital assets are valued at historical cost or estimated historical cost if actual is unavailable, except for donated capital assets which are recorded at their estimated acquisition value at the date of donation.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation.

Fund Financial Statements

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

Accounts Payable

Payables in the governmental and proprietary funds are composed almost entirely of payables to vendors.

Compensated Absences

It is the City's policy to permit employees to accumulate a limited amount of earned but unused leave. All leave pay is accrued when incurred in the government-wide and proprietary fund financial statements.

A liability for these amounts is reported in governmental funds only if they have matured, for example, as the result of an employee's resignation or retirement. In the event a liability is recorded in the governmental funds, General Fund resources would be used to liquidate the compensated absences.

CITY OF SCANDIA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.F. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, AND EQUITY (Continued)

Long-Term Debt

The accounting treatment of long-term debt and other long-term obligations depends on whether the liabilities pertain to governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term debt consists of general obligation bonds and certificates payable.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest are reported as expenditures. The accounting for proprietary funds is the same in the fund statements as it is in the government-wide statements.

Net Pension Asset/Liability

The net pension asset represents the City's allocation of its pro-rata share of the Statewide Volunteer Firefighter Fund net pension asset. The net pension liability represents the City's allocation of its pro-rata share of the net pension liabilities of the Statewide pension plans administered by the Public Employees Retirement Administration (PERA).

PERA

For purposes of measuring the net pension asset and 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.

Deferred Outflows/Inflows of Resources

In addition to assets, the Statements of Net Position report a separate section for deferred outflows of resources. This element represents a consumption of net position that applies to future periods and, therefore, will not be recognized as an outflow of resources (expense) until that time. The City reports deferred outflows of resources in the government-wide and proprietary funds Statements of Net Position in relation to the activity of the pension funds in which City employees participate.

In addition to liabilities, the Statements of Net Position and Balance Sheet report a separate section for deferred inflows of resources. This element represents an acquisition of net position or fund balance that applies to future periods, and therefore, will not be recognized as an inflow of resources (revenue) until that time. The City reports property taxes and special assessments as deferred inflows of resources in the governmental fund financial statements, in accordance with the modified accrual basis of accounting. In addition, the City reports deferred inflows of resources in the government-wide and proprietary funds Statements of Net Position in relation to the activity of pension funds in which City employees participate.

See Notes 3 and 5 for additional information pertaining to the deferred outflows and deferred inflows recorded to account for pension activities.

CITY OF SCANDIA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.F. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, AND EQUITY (Continued)

Equity Classifications

Government-wide Statements

Equity is classified as net position and displayed in three components:

Net Investment in Capital Assets – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted – Consists of net position with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or 2) law through constitutional provisions or enabling legislation.

Unrestricted – Remaining balance of net position that does not meet the definition of “restricted” or “net investment in capital assets.”

It is the City’s policy to consider restricted net position to its depletion before unrestricted net position is applied.

Governmental Fund Financial Statements

In the fund financial statements, governmental funds report fund balances as either nonspendable, restricted, committed, assigned, or unassigned. When the City incurs an expenditure for which it may use either restricted or unrestricted fund balances, it uses restricted fund balances first unless unrestricted fund balances will have to be returned because they were not used. When the City incurs an expenditure for purposes for which amounts in any unrestricted fund balance classification could be used, it uses fund balances in the following order: Committed, assigned, unassigned.

Nonspendable – Includes amounts that cannot be spent because they are either not in spendable form, or legally or contractually required to be maintained intact. The nonspendable fund balances at December 31, 2023 consist of inventory, prepaid expenditures, deposit on asset, and advances to other funds.

Restricted – Includes the portion of fund balance which is not available for appropriation or which has been legally segregated for a specific purpose.

Committed – Amounts that can only be used for specific purposes pursuant to constraints imposed by formal action (resolution) of the City Council, which is the highest level of decision making authority. Committed amounts cannot be used for any other purpose unless the City Council modifies or rescinds the commitment by resolution.

Assigned – Amounts that are constrained by the City’s intent to be used for specific purposes, but are neither restricted nor committed. The City Administrator or his/her designee shall have the authority to assign fund balance.

Unassigned – This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. The City has formally adopted a policy under which it strives to maintain a minimum unassigned general fund balance equal to approximately 50%-65% of annual General Fund operating expenditures.

See Note 2.E. for additional disclosures.

Proprietary Fund Financial Statements

Proprietary fund equity is classified the same as in the government-wide statements, as described above.

CITY OF SCANDIA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.G. REVENUES, EXPENDITURES, AND EXPENSES

Property Tax

Under State law, municipalities are limited in their ability to levy a property tax. The City levies its property tax for the subsequent year during the month of December. The County of Washington is the collecting agency for the levy and remits the collections to the City. In the fund financial statements, property taxes are recorded as revenue in the period levied to the extent they are collected within 60 days of year-end.

December 31 is the last day the City can certify a tax levy to the County for collection the following year. The County creates the tax list for all taxable property in the City and applies the applicable tax rate to the tax capacity of individual properties to arrive at the actual tax for each property. The County also collects all special assessments, except for certain prepayments paid directly to the City. The County collects all taxes and assessments, except as noted above. The County mails copies of all real estate and personal property tax statements. Each year, property owners are required to pay one half of their real estate taxes by May 15 and the balance by October 15. Penalties and interest are assessed to property owners who do not pay their property taxes and special assessments by the due dates.

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

Special Assessments

Special assessments are levied against benefited properties for the cost or a portion of the cost of special assessment improvement projects in accordance with State Statutes. These assessments are collectible by the City over a term of years usually consistent with the term of the related bond issue. Collection of annual installments (including interest) is handled by the County Auditor in the same manner as property taxes. Property owners are allowed to (and often do) prepay future installments without interest or prepayment penalties.

Within the government-wide financial statements, the City recognizes special assessment revenue in the period that the assessment roll was adopted by the City Council. Uncollectible special assessments are not material and have not been reported.

Within the governmental fund financial statements, the revenue from special assessments is recognized by the City when it becomes measurable and available to finance expenditures of the current fiscal period. In practice, current and delinquent special assessments received by the City are recognized as revenue for the current year. Special assessments are collected by the County and remitted by December 31 (remitted to the City the following January) and are also recognized as revenue for the current year. All remaining delinquent, deferred, and special deferred assessments receivable in governmental funds are completely offset by deferred inflows of resources.

Operating Revenues and Expenses

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related to financing, noncapital financing, or investing activities.

Expenditures/Expenses

In the government-wide financial statements, expenses are classified by function for both governmental and business-type activities.

**CITY OF SCANDIA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.G. REVENUES, EXPENDITURES, AND EXPENSES (Continued)

In the fund financial statements, expenditures are classified as follows:

Governmental Funds – By Character	Current (further classified by Function)
	Debt Service
	Capital Outlay

Proprietary Fund – By Operating and Nonoperating

In the fund financial statements, governmental funds report expenditures of financial resources. Proprietary funds report expenses relating to use of economic resources.

Interfund Transfers

Permanent reallocations of resources between funds of the reporting entity are classified as interfund transfers. For the purpose of the Statement of Activities, all interfund transfers between individual governmental funds, as well as all interfund transfers between individual proprietary funds, have been eliminated. See additional information at Note 2.D.

**CITY OF SCANDIA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 2 DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS

The following notes present detail information to support the amounts reported in the basic financial statements for its various assets, liabilities, deferred outflows/inflows of resources, equity, revenues, and expenditures/expenses.

2.A. CASH, CASH EQUIVALENTS, AND INVESTMENTS

Deposits

In accordance with applicable Minnesota Statutes, the City maintains deposits at depository banks authorized by the City Council. Minnesota Statutes require that all City deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds (100 percent if collateral pledged is irrevocable standby letters of credit issued by the Federal Home Loan Bank). The City complies with such laws.

Authorized collateral in lieu of a corporate surety bond includes:

- United States Government Treasury bills, Treasury notes, Treasury bonds;
- Issues of United States government agencies and instrumentalities as quoted by a recognized industry quotation service available to the government entity;
- A general obligation of a state or local government, with taxing powers, rated “A” or better;
- A revenue obligation of a state or local government, with taxing powers, rated “AA” or better;
- Unrated general obligation securities of a local government, with taxing powers, pledged as collateral against funds deposited by that same local government entity;
- Irrevocable standby letter of credit issued by a Federal Home Loan Bank accompanied by written evidence that the Federal Home Loan Bank’s publicdebt is rated “AA” or better by Moody’s or Standard and Poor’s; or
- Time deposits insured by any federal agency.

Minnesota Statutes require that all collateral shall be placed in safekeeping in a restricted account at a Federal Reserve Bank, or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral. The selection should be approved by the City.

At December 31, 2023, the City’s deposits, including certificates of deposit, were not exposed to custodial credit risk. The City’s deposits were sufficiently covered by federal depository insurance or by collateral held by the City’s agent in the City’s name.

CITY OF SCANDIA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 2 DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)

2.B. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2023 is as follows:

	Balance at 01/01/23	Additions	Disposals	Transfers	Balance at 12/31/23
<i>Governmental Activities:</i>					
Capital Assets not Being Depreciated					
Land	\$ 487,735	\$ -	\$ -	\$ -	\$ 487,735
Construction In Progress	622,277	854,131	-	(1,363,380)	113,028
Total Capital Assets not Being Depreciated	1,110,012	854,131	-	(1,363,380)	600,763
Capital Assets Being Depreciated					
Buildings	2,394,353	-	-		2,394,353
Equipment	1,122,596	283,414	(41,500)	-	1,364,510
Vehicles	2,030,630	-	-	-	2,030,630
Infrastructure	17,149,001		-	1,363,380	18,512,381
Other Improvements	279,378	202,559	-	-	481,937
Total Capital Assets Being Depreciated	22,975,958	485,973	(41,500)	1,363,380	24,783,811
Less: Accumulated Depreciation					
Buildings	(1,270,226)	(53,397)	-	-	(1,323,623)
Equipment	(438,648)	(80,275)	37,054	-	(481,869)
Vehicles	(1,322,394)	(90,432)	-	-	(1,412,826)
Infrastructure	(5,895,172)	(456,201)	-	-	(6,351,373)
Other Improvements	(148,973)	(17,509)	-	-	(166,482)
Total Accumulated Depreciation	(9,075,413)	(697,814)	37,054	-	(9,736,173)
Total Capital Assets Being Depreciated, Net	13,900,545	(211,841)	(4,446)	1,363,380	15,047,638
Capital Assets, Net	<u>\$ 15,010,557</u>	<u>\$ 642,290</u>	<u>\$ (4,446)</u>	<u>\$ -</u>	<u>\$ 15,648,401</u>

Depreciation is charged to governmental activities as follows:

General Government	\$ 34,698
Public Safety	88,853
Public Works	550,532
Parks and Recreation	<u>23,731</u>
Total Depreciation Expense	<u>\$ 697,814</u>

CITY OF SCANDIA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 2 DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)

2.B. CAPITAL ASSETS (Continued)

	Balance at 01/01/23	Additions	Disposals	Transfers	Balance at 12/31/23
<i>Business-Type Activities:</i>					
Capital Assets not Being Depreciated					
Construction In Progress	\$ 21,088	\$ 83,818	\$ -	\$ -	\$ 104,906
Capital Assets Being Depreciated					
Sewer Plant	1,500,000	-	-	-	1,500,000
Equipment	317,976	8,448	-	-	326,424
Uptown Sewer	243,827	-	-	-	243,827
Total Capital Assets Being Depreciated	2,061,803	8,448	-	-	2,070,251
Less: Accumulated Depreciation					
Sewer Plant	(990,000)	(30,000)	-	-	(1,020,000)
Equipment	(90,521)	(20,428)	-	-	(110,949)
Uptown Sewer	(82,703)	(4,876)	-	-	(87,579)
Total Accumulated Depreciation	(1,163,224)	(55,304)	-	-	(1,218,528)
Total Capital Assets Being Depreciated, Net	898,579	(46,856)	-	-	851,723
Capital Assets, Net	\$ 919,667	\$ 36,962	\$ -	\$ -	\$ 956,629

2.C. NONCURRENT LIABILITIES

The City's long-term debt is segregated between the amounts to be repaid from governmental activities and amounts to be repaid from business-type activities (none).

Debt Detail

General Obligation Bonds

The City issues general obligation bonds to finance the acquisition and construction of major capital facilities and infrastructure throughout the City. Currently, general obligation bonds have been issued and are outstanding solely for activities pertaining to governmental operations. General obligation bonds are direct obligations and pledge the full faith and credit of the City. General obligation bonds outstanding at December 31, 2023 consist of the following:

General Obligation Bonds						
Type of Debt	Issue Date	Annual Payment	Interest Rate(s)	Maturity Date	Original Amount	Remaining Amount
G.O. Bonds, Series 2018A	5/18	\$155,000 - \$315,000	3.00-3.13%	12/33	\$ 3,835,000	\$ 2,780,000

**CITY OF SCANDIA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 2 DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)

2.C. NONCURRENT LIABILITIES (Continued)

Changes in Noncurrent Liabilities

The following is a summary of changes in noncurrent liabilities, excluding net pension liability, for the year ended December 31, 2023:

Type of Debt	Balance 1/1/23	Additions	Deductions	Balance 12/31/23	Amounts Due Within One Year
<i>Governmental Activities:</i>					
Bonds	\$ 3,015,000	\$ -	\$ (235,000)	\$ 2,780,000	\$ 245,000
Unamortized Bond Premium	41,005	-	(3,728)	37,277	-
Equipment Certificates	60,000	-	(60,000)	-	-
Compensated Absences	<u>24,420</u>	<u>43,489</u>	<u>(24,913)</u>	<u>42,996</u>	<u>42,996</u>
 Total	 <u>\$ 3,140,425</u>	 <u>\$ 43,489</u>	 <u>\$ (323,641)</u>	 <u>\$ 2,860,273</u>	 <u>\$ 287,996</u>

Governmental activity debt is typically funded through the Debt Service Fund. Compensated absences is funded through the funds to which the respective employees' wages are allocated.

Annual Debt Service Requirements

At December 31, 2023, the estimated annual debt service requirements to maturity, including principal and interest, are as follows:

Years Ending December 31,	Governmental Activities		
	Principal	Interest	Total
2024	\$ 245,000	\$ 84,175	\$ 329,175
2025	250,000	76,825	326,825
2026	255,000	69,325	324,325
2027	265,000	61,675	326,675
2028	275,000	53,725	328,725
2029-2033	<u>1,490,000</u>	<u>140,144</u>	<u>1,630,144</u>
 Totals	 <u>\$ 2,780,000</u>	 <u>\$ 485,869</u>	 <u>\$ 3,265,869</u>

Interest and other fiscal charges total \$88,677 in the Statement of Activities (included in Debt Service line). Interest and other fiscal charges total \$92,650 for the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds (included in the line Interest and Other Charges).

**CITY OF SCANDIA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 2 DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)

2.D. INTERFUND TRANSACTIONS AND BALANCES

Operating transfers consist of the following for the year ended December 31, 2023:

Major Funds	Transfers Out	Transfers In Park Capital Improvement
General	\$ 146,620	\$ 146,620

Transfers are used to (a) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget require to expend them and to (b) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

The interfund balances are as follows:

Long-Term Advances		Amount	Reason
Due To Fund	Due From Fund		
Capital Improvement	Uptown Sewer	\$ 10,548	Sewer improvements
Capital Improvement	General Fund	18,000	Community Center LED lighting improv.
Governmental Funds Advances To/From		\$ 28,548	
Governmental Fund Elimination		(18,000)	
Government-wide Internal Balances		\$ 10,548	

The Uptown Sewer Fund monies owed to the Capital Improvement Fund will be repaid as future sewer charges are collected and the cash flows become available. The General Fund monies owed to the Capital Improvement Fund will be repaid via an annual payment of \$3,000 per year.

CITY OF SCANDIA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 2 DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)

2.E. FUND EQUITY

At December 31, 2023, governmental fund equity consists of the following:

	<u>Nonspendable</u>	<u>Restricted</u>	<u>Committed</u>	<u>Assigned</u>	<u>Unassigned</u>
General Fund					
Nonspendable - Inventory	\$ 12,375	\$ -	\$ -	\$ -	\$ -
Nonspendable - Prepaids	10,958	-	-	-	-
Unassigned	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,336,309</u>
Total General Fund Balance	<u>\$ 23,333</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,336,309</u>
Capital Improvement Fund					
Nonspendable - Advances to Other Fund	\$ 28,548	\$ -	\$ -	\$ -	\$ -
Committed for Capital Improvements	<u>-</u>	<u>-</u>	<u>680,251</u>	<u>-</u>	<u>-</u>
Total Capital Improvement Fund	<u>\$ 28,548</u>	<u>\$ -</u>	<u>\$ 680,251</u>	<u>\$ -</u>	<u>\$ -</u>
Local Road Improvement Fund					
Assigned for Local Road Improvements	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 100,002</u>	<u>\$ -</u>
Park Capital Improvement Fund					
Committed for Park Capital Improvements	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 91,868</u>	<u>\$ -</u>	<u>\$ -</u>
Debt Service Fund					
Restricted for Debt Service	<u>\$ -</u>	<u>\$ 94,334</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
COVID Relief Fund					
Restricted for COVID Relief	<u>\$ -</u>	<u>\$ 466,422</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Nonmajor Governmental Funds					
Nonspendable - Deposit on Asset	\$ 12,717	\$ -	\$ -	\$ -	\$ -
Restricted for Public Safety	-	176,529	-	-	-
Committed for Economic Development	-	-	37,707	-	-
Assigned for Cable TV	-	-	-	21,378	-
Assigned for Equipment Replacement	<u>-</u>	<u>-</u>	<u>-</u>	<u>137,621</u>	<u>-</u>
Total Nonmajor Governmental Funds Balance	<u>\$ 12,717</u>	<u>\$ 176,529</u>	<u>\$ 37,707</u>	<u>\$ 158,999</u>	<u>\$ -</u>

CITY OF SCANDIA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 3 DEFINED BENEFIT PENSION PLANS - STATEWIDE

Plan Description

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

General Employees Retirement Plan

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

Public Employees Police and Fire Plan

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

Benefits Provided

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

General Employees Plan Benefits

General Employees Plan benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for Coordinated members is 1.20 percent for each of the first 10 years of service and 1.70 percent for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.70 percent for all years of service. For members hired prior to July 1, 1989 a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

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

Police and Fire Plan Benefits

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

**CITY OF SCANDIA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 3 DEFINED BENEFIT PENSION PLANS - STATEWIDE (Continued)

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

In 2023, the legislature allocated funding for a one-time lump-sum payment to General Employee and Police and Fire Plan benefit recipients. Eligibility criteria and the payment amount is specified in statute. The one-time payment is non-compounding towards future benefits.

Contributions

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

General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in fiscal year 2023, and the City was required to contribute 7.50 percent for Coordinated Plan members. The City’s contributions to the General Employees Fund for the year ended December 31, 2023, were \$31,393. The City’s contributions were equal to the required contributions as set by State Statute.

Police and Fire Fund Contributions

Police and Fire Plan members were required to contribute 11.80 percent of their annual covered salary in fiscal year 2023 and the City was required to contribute 17.70 percent for Police and Fire Plan members. The City’s contributions to the Police and Fire Fund for the year ended December 31, 2023, were \$8,946. The City’s contributions were equal to the required contributions as set by State Statute.

Pension Costs

General Employees Fund Pension Costs

At December 31, 2023, the City reported a liability of \$335,513 for its proportionate share of the General Employees Fund’s net pension liability. The City’s net pension liability reflected a reduction due to the State of Minnesota’s contribution of \$16 million. The State of Minnesota is considered a non-employer contributing entity and the State’s contribution meets the definition of a special funding situation. The State of Minnesota’s proportionate share of the net pension liability associated with the City totaled \$9,151.

The net pension liability was measured as of June 30, 2023, 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, 2022 through June 30, 2023, relative to the total employer contributions received from all of PERA’s participating employers. The City’s proportionate share was 0.0060 percent at the end of the measurement period and 0.0064 percent for the beginning of the period.

City’s proportionate share of the net pension liability:	\$335,513
State of Minnesota’s proportionate share of the net pension liability associated with the City	<u>9,151</u>
Total	<u>\$344,664</u>

For the year ended December 31, 2023, the City recognized pension expense of \$917 for its proportionate share of the General Employees Plan’s pension expense. In addition, the City recognized an additional \$41 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.

**CITY OF SCANDIA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 3 DEFINED BENEFIT PENSION PLANS - STATEWIDE (Continued)

At December 31, 2023, the City reported its proportionate share of the General Employees Plan’s deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 11,195	\$ 2,311
Changes in actuarial assumptions	54,460	91,961
Difference between projected and actual investment earnings	-	4,531
Changes in proportionate share	14,537	23,760
Contributions paid to PERA subsequent to the measurement date	19,053	-
Total Deferred Outflows/Inflows	\$ 99,245	\$ 122,563

The \$19,053 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 ended December 31, 2024. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	Pension Expense
2024	\$ 13,036
2025	\$ (50,909)
2026	\$ 2,779
2027	\$ (7,277)

Police and Fire Fund Pension Costs

At December 31, 2023, the City reported a liability of \$67,348 for its proportionate share of the Police and Fire Fund’s net pension liability. The net pension liability was measured as of June 30, 2023, 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, 2022 through June 30, 2023, relative to the total employer contributions received from all of PERA’s participating employers. The City’s proportionate share was 0.0039 percent at the end of the measurement period and 0.0039 percent for the beginning of the period.

The State of Minnesota contributed \$18 million to the Police and Fire Fund in the plan fiscal year ended June 30, 2023. The contribution consisted of \$9 million in direct state aid that does meet the definition of a special funding situation and \$9 million in supplemental state aid that does not meet the definition of a special funding situation. The \$9 million direct state was paid on October 1, 2022. Thereafter, by October 1 of each year, the state will pay \$9 million to the Police and Fire Fund until full funding is reached or July 1, 2048, whichever is earlier. The \$9 million in supplemental state aid will continue until the fund is 90 percent funded, or until the State Patrol Plan (administered by the Minnesota State Retirement System) is 90 percent funded, whichever occurs later. The State of Minnesota’s proportionate share of the net pension liability associated with the City totaled \$2,742.

CITY OF SCANDIA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 3 DEFINED BENEFIT PENSION PLANS - STATEWIDE (Continued)

City's proportionate share of the net pension liability:	\$67,348
State of Minnesota's proportionate share of the net pension liability associated with the City	<u>2,742</u>
Total	<u>\$70,090</u>

The State of Minnesota is included as a non-employer contributing entity in the Police and Fire Retirement Plan Schedule of Employer Allocations and Schedule of Pension Amounts by Employer, Current Reporting Period Only (pension allocation schedules) for the \$9 million in direct state aid. Police and Fire Plan employers need to recognize their proportionate share of the State of Minnesota's pension expense (and grant revenue) under GASB 68 special funding situation accounting and financial reporting requirements. For the year ended June 30, 2023, the City recognized pension expense of negative \$1,765 for its proportionate share of the Police and Fire Plan's pension expense. The City recognized negative \$165 as grant revenue for its proportionate share of the State of Minnesota's pension expense for the contribution of \$9 million to the Police and Fire Fund.

The State of Minnesota is not included as a non-employer contributing entity in the Police and Fire Pension Plan pension allocation schedules for the \$9 million in supplemental state aid. The City recognized \$351 for the year ended December 31, 2023 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, 2023, the City reported its proportionate share of the Police and Fire Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 18,668	\$ -
Changes in actuarial assumptions	78,152	94,720
Difference between projected and actual investment earnings	-	2,149
Changes in proportionate share	20,581	12,522
Contributions paid to PERA subsequent to the measurement date	<u>4,552</u>	<u>-</u>
Total Deferred Outflows/Inflows	<u>\$ 121,953</u>	<u>\$ 109,391</u>

The \$4,552 reported as deferred outflows of resources related to pensions resulting from the City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2024.

CITY OF SCANDIA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 3 DEFINED BENEFIT PENSION PLANS - STATEWIDE (Continued)

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

Year ended December 31:	Pension Expense
2024	\$ 10,172
2025	\$ 6,861
2026	\$ 12,187
2027	\$ (4,499)
2028	\$ (16,711)

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	<u>25.0%</u>	5.90%
Total	<u>100%</u>	

Actuarial Methods and Assumptions

The total pension liability in the June 30, 2023 actuarial valuation was determined using an individual entry-age normal actuarial cost method. The long-term rate of return on pension plan investments used in the determination of the total liability is 7.00 percent. This assumption is based on a review of inflation and investments return assumptions from a number of national investment consulting firms. The review provided a range of return investment return rates deemed to be reasonable by the actuary. An investment return of 7.00 percent was deemed to be within that range of reasonableness for financial reporting purposes.

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

Salary growth assumptions in the General Employees Plan range in annual increments from 10.25 percent after one year of service to 3.00 percent after 27 years of service. In the Police and Fire Plan, salary growth assumptions range from 11.75 percent after one year of service to 3.00 percent after 24 years of service.

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

Actuarial assumptions for the General Employees Plan are reviewed every four years. The most recent four-year experience study for the General Employees Plan was completed in 2022. The assumption changes were adopted by the Board and became effective with the July 1, 2023 actuarial valuation. The most recent four-year experience studies for the Police and Fire Plan were completed in 2020 were adopted by the Board and became effective with the July 1, 2021 actuarial valuation.

**CITY OF SCANDIA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 3 DEFINED BENEFIT PENSION PLANS - STATEWIDE (Continued)

The following changes in actuarial assumptions and plan provisions occurred in 2023:

General Employees Fund

Changes in Actuarial Assumptions:

- The investment return assumption and single discount rate were changed from 6.50 percent to 7.00 percent.

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, non-compounding benefit increase of 2.50 percent minus the actual 2024 adjustment will be payable in a lump sum for calendar year 2024 by March 31, 2024.

Police and Fire Fund

Changes in Actuarial Assumptions:

- The investment return assumption was changed from 6.50 percent to 7.00 percent.
- The single discount rate changed from 5.40 percent to 7.00 percent.

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, non-compounding 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.

Discount Rate

The discount rate used to measure the total pension liability in 2023 was 7.00 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Fund and the Police and Fire Fund were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Pension Liability Sensitivity

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

	Sensitivity Analysis					
	General Employees Fund			Police and Fire Fund		
1% Decrease in Discount Rate	6.00%	\$	593,550	6.00%	\$	133,626
Current Discount Rate	7.00%	\$	335,513	7.00%	\$	67,348
1% Increase in Discount Rate	8.00%	\$	123,268	8.00%	\$	12,858

**CITY OF SCANDIA, MINNESOTA
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2023**

NOTE 3 DEFINED BENEFIT PENSION PLANS - STATEWIDE (Continued)

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 4 DEFINED CONTRIBUTION PENSION PLAN - STATEWIDE

The council members of the City of Scandia 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.03, specifies plan provisions, including the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes five percent of salary which is matched by the elected official's employer. 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 percent) of the assets in each member's account annually.

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

Contribution Amounts		Percentage of Covered Payroll		Required Rate
<u>Employee</u>	<u>Employer</u>	<u>Employee</u>	<u>Employer</u>	
\$847	\$847	5%	5%	5%

NOTE 5 STATEWIDE VOLUNTEER FIREFIGHTER RETIREMENT PLAN

Plan Description

The Scandia Fire/Rescue participates in the Statewide Volunteer Firefighter Retirement Plan (accounted for in the Volunteer Firefighter Fund), an agent multiple-employer lump-sum defined benefit pension plan administered by the Public Employees Retirement Association of Minnesota (PERA). The Volunteer Firefighter Plan covers volunteer firefighters of municipal fire departments or independent nonprofit firefighting corporations that have elected to join the plan. As of December 31, 2022, the plan covered 26 active firefighters and 5 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 5 years at 40 percent through 20 years at 100 percent.

CITY OF SCANDIA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 5 STATEWIDE VOLUNTEER FIREFIGHTER RETIREMENT PLAN (Continued)

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 \$40,474 in fire state aid to the fund for the year ended December 31, 2022. Required employer contributions are calculated annually based on statutory provisions. The City of Scandia's statutorily-required contributions to the Volunteer Firefighter Fund for the year ended December 31, 2022 were \$0.

Pension Costs

At December 31, 2023, the City of Scandia reported a net pension asset of \$85,667 for the Volunteer Firefighter Fund. The net pension asset was measured as of December 31, 2022. The total pension liability used to calculate the net pension asset in accordance with GASB 68 was determined by PERA applying an actuarial formula to specific census data certified by the fire department. The following table presents the changes in net pension asset during the year.

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
Beginning Balance 12/31/21	\$ 774,018	\$ 1,028,982	\$ (254,964)
Service Cost	35,635	-	35,635
Interest on Pension Liability	46,449	-	46,449
Actuarial Experience (Gains)/Losses	(20,824)	-	(20,824)
Projected Investment Earnings	-	61,739	(61,739)
Contributions (State)	-	40,474	(40,474)
Asset (Gain)/Loss	-	(209,321)	209,321
Benefit Payouts	(71,000)	(71,000)	-
PERA Administrative Fee	-	(870)	870
SBI Investment Fee	-	(59)	59
Net Changes	<u>(9,740)</u>	<u>(179,037)</u>	<u>169,297</u>
Balance End of Year 12/31/22	<u>\$ 764,278</u>	<u>\$ 849,945</u>	<u>\$ (85,667)</u>

For the year ended December 31, 2023, the City recognized pension expense of negative \$22,665.

At December 31, 2023, the City of Scandia reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 34,381
Difference between projected and actual investment earnings	<u>104,358</u>	<u>-</u>
Total Deferred Outflows/Inflows	<u>\$ 104,358</u>	<u>\$ 34,381</u>

**CITY OF SCANDIA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 5 STATEWIDE VOLUNTEER FIREFIGHTER RETIREMENT PLAN (Continued)

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

Year ended December 31:	Pension Expense
2024	\$ (6,348)
2025	\$ 10,694
2026	\$ 27,932
2027	\$ 37,699

Actuarial Assumptions

The total pension liability at December 31, 2022, was determined using the entry age normal actuarial cost method and the following actuarial assumptions:

- Retirement eligibility at the later of age 50 or 20 years of service
- Investment rate of return of 6.0 percent
- Inflation rate of 3.0 percent

No changes in actuarial assumptions were made during the measurement period.

Discount Rate

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

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 one percent lower or one percent higher than the current discount rate:

	1% Decrease in Discount Rate (5.0%)	Discount Rate (6.0%)	1% Increase in Discount Rate (7.0%)
Net Pension Asset	\$ 68,276	\$ 85,667	\$ 102,454

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.

**CITY OF SCANDIA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 5 STATEWIDE VOLUNTEER FIREFIGHTER RETIREMENT PLAN (Continued)

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 on-going 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%	5.10%
International Stocks	15%	5.30%
Bonds	45%	0.75%
Unallocated Cash	5%	0.00%

The six percent 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 2022 for Volunteer Firefighter Fund.

Pension Plan Fiduciary Net Position

Detailed information about the Volunteer Firefighter Fund’s fiduciary net position as of December 31, 2022, 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 OTHER NOTES

6.A. RISK MANAGEMENT

Claims and Judgements

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To manage these risks, the City purchases commercial insurance. The City retains risk for the deductible portions of the insurance. The amounts of these deductibles are considered immaterial to the financial statements. There were no significant reductions in insurance from the previous year settlements in excess of insurance for any of the past two years.

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

**CITY OF SCANDIA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 6 OTHER NOTES (Continued)

6.B. COMMITMENTS

Law Enforcement Services

The City receives law enforcement services under an agreement with Washington County. Such agreement automatically renews on an annual basis and calls for the City to compensate the County based on the actual costs incurred while providing services under the agreement. Based on the 2024 contract budget, expenditures anticipated under this agreement for 2024 are estimated at \$183,442.

Purchases

The City approved purchases of a utility truck, fire truck, and boat with trailer in the amount of \$520,956.

6.C. OTHER EMPLOYEE BENEFITS

The City provides eligible employees future retirement benefits through participation in the Minnesota Deferred Compensation Plan (MNDCP), which is a Section 457 plan administered by the Minnesota State Retirement System. Eligible employees of the City may begin participating in the MNDCP commencing on the date of their employment by electing to have a percentage of their pay contributed to the Plan. The City does not currently make employer contributions to the plan.

6.D. CORRECTION OF AN ERROR

During the year ended December 31, 2023, the City determined an adjustment to beginning equity was necessary to correct an error identified in the City’s prior year financial statements. Expenditures paid during the year ended December 31, 2022 were inadvertently included in the December 31, 2022 accounts payable balances, resulting in an overstatement in December 31, 2022 accounts payable and an understatement in the December 31, 2022 fund balance and governmental activities net position. An adjustment has been recorded to correct this error. The table below displays the impact of this adjustment on the prior year financial statements:

	<u>Capital Improvement Fund</u>	<u>Governmental Activities</u>
December 31, 2022 Fund Balance / Net Position, as Previously Reported	\$ 564,735	\$ 15,429,997
Accounts Payable Adjustment	<u>12,750</u>	<u>12,750</u>
December 31, 2022 Fund Balance / Net Position, as Restated	<u>\$ 577,485</u>	<u>\$ 15,442,747</u>
Net Change in Fund Balance / Net Position for the Year Ended December 31, 2022, as Previously Reported	\$ (71,169)	\$ 225,451
Accounts Payable Adjustment	<u>12,750</u>	<u>12,750</u>
Net Change in Fund Balance / Net Position for the Year Ended December 31, 2022, as Restated	<u>\$ (58,419)</u>	<u>\$ 238,201</u>

**CITY OF SCANDIA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 6 OTHER NOTES (Continued)

6.E. SUBSEQUENT EVENTS

Construction Projects

Subsequent to year-end and prior to issuance of these financial statements, the City approved a contract for the 2024 Street Improvement Project at an approximate cost of \$3,014,097.

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF SCANDIA, MINNESOTA
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2023**

	Budget Amounts- Original and Final	Actual Amounts Budgetary Basis	Variance with Budget Over (Under)
REVENUES			
Taxes			
Property Taxes	\$ 1,872,318	\$ 1,862,829	\$ (9,489)
Franchise Taxes	6,000	5,874	(126)
Gravel Tax	20,000	15,146	(4,854)
Total Taxes	<u>1,898,318</u>	<u>1,883,849</u>	<u>(14,469)</u>
Licenses and Permits	161,100	195,194	34,094
Intergovernmental Revenue			
State Revenue			
Market Value Credit	7,000	14,409	7,409
Police and Fire Aid	37,000	47,148	10,148
Other State Grants and Aids	12,200	14,053	1,853
County Revenue			
Other County Grants and Aids	10,500	8,165	(2,335)
Total Intergovernmental Revenue	<u>66,700</u>	<u>83,775</u>	<u>17,075</u>
Charges for Services			
General Government	9,700	10,447	747
Police and Fire Contracts	32,300	32,300	-
Streets and Highways	3,300	3,689	389
Parks and Recreation	7,700	12,063	4,363
Total Charges for Services	<u>53,000</u>	<u>58,499</u>	<u>5,499</u>
Fines and Forfeitures	7,400	7,133	(267)
Miscellaneous Revenue			
Investment Earnings	12,100	29,798	17,698
Contributions and Donations	2,000	6,092	4,092
Other Miscellaneous	7,900	6,485	(1,415)
Total Miscellaneous Revenue	<u>22,000</u>	<u>42,375</u>	<u>20,375</u>
TOTAL REVENUES	2,208,518	2,270,825	62,307
EXPENDITURES			
General Government			
Mayor and Council	20,900	23,195	2,295
Administration and Finance	274,200	200,104	(74,096)
Other General Government	404,000	410,031	6,031
Capital Outlay	5,500	8,247	2,747
Total General Government	<u>704,600</u>	<u>641,577</u>	<u>(63,023)</u>

**CITY OF SCANDIA, MINNESOTA
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2023**

	<u>Budget Amounts- Original and Final</u>	<u>Actual Amounts Budgetary Basis</u>	<u>Variance with Budget Over (Under)</u>
Public Safety			
Police			
Current	\$ 168,999	\$ 169,458	\$ 459
Fire			
Current	328,600	389,106	60,506
Capital Outlay	1,400	416	(984)
Other Public Safety			
Current	<u>55,000</u>	<u>76,207</u>	<u>21,207</u>
Total Public Safety	553,999	635,187	81,188
Public Works			
Street Maintenance and Storm Sewers	683,550	633,342	(50,208)
Snow and Ice Removal	30,000	24,777	(5,223)
Street Engineering	10,000	12,793	2,793
Street Lighting	8,200	9,326	1,126
Capital Outlay - Other	<u>1,000</u>	<u>407</u>	<u>(593)</u>
Total Public Works	732,750	680,645	(52,105)
Culture and Recreation			
Parks and Recreation			
Current	175,160	144,544	(30,616)
Capital Outlay	<u>16,000</u>	<u>12,397</u>	<u>(3,603)</u>
Total Culture and Recreation	<u>191,160</u>	<u>156,941</u>	<u>(34,219)</u>
TOTAL EXPENDITURES	<u>2,182,509</u>	<u>2,114,350</u>	<u>(68,159)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	26,009	156,475	130,466
OTHER FINANCING SOURCES (USES)			
Transfers			
To Other Funds	<u>-</u>	<u>(146,620)</u>	<u>(146,620)</u>
NET CHANGE IN FUND BALANCE	<u>\$ 26,009</u>	9,855	<u>\$ (16,154)</u>
FUND BALANCE - BEGINNING		<u>1,349,787</u>	
FUND BALANCE - ENDING		<u>\$ 1,359,642</u>	

CITY OF SCANDIA, MINNESOTA
SCHEDULE OF CITY'S PROPORTIONATE
SHARE OF NET PENSION LIABILITY
LAST TEN YEARS (Presented Prospectively)

For the Measurement Year Ended June 30	City's Proportion of the Net Pension Liability (Asset)	City's Proportionate Share of the Net Pension Liability (Asset) (a)	State's Proportionate Share of the Net Pension Liability Associated with the City (b)	City's Proportionate Share of the Net Pension Liability and the State's Proportionate Share of the Net Pension Liability Associated with the City (a+b)	City's Covered Payroll (c)	City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll ((a+b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
<i>General Employees Retirement Pension Plan</i>							
2023	0.0060%	\$ 335,513	\$ 9,151	\$ 344,664	\$ 409,689	84.1%	83.1%
2022	0.0064%	\$ 506,882	\$ 14,663	\$ 521,545	\$ 454,973	114.6%	76.7%
2021	0.0060%	\$ 256,227	\$ 7,846	\$ 264,073	\$ 412,253	64.1%	87.0%
2020	0.0056%	\$ 335,746	\$ 10,402	\$ 346,148	\$ 403,027	85.9%	79.1%
2019	0.0056%	\$ 309,611	\$ 9,666	\$ 319,277	\$ 370,760	86.1%	80.2%
2018	0.0057%	\$ 316,213	\$ 10,395	\$ 326,608	\$ 380,371	85.9%	79.5%
2017	0.0053%	\$ 338,349	\$ 4,251	\$ 342,600	\$ 338,175	101.3%	75.9%
2016	0.0057%	\$ 462,812	\$ 6,071	\$ 468,883	\$ 357,680	131.1%	68.9%
2015	0.0059%	\$ 305,769	\$ -	\$ 305,769	\$ 342,106	89.4%	78.2%
<i>Public Employees Police and Fire Pension Plan</i>							
2023	0.0039%	\$ 67,348	\$ 2,742	\$ 70,090	\$ 49,270	142.3%	86.5%
2022	0.0039%	\$ 169,713	\$ 7,468	\$ 177,181	\$ 47,226	375.2%	70.5%
2021	0.0039%	\$ 30,104	\$ 1,362	\$ 31,466	\$ 44,542	70.6%	93.7%
2020	0.0058%	\$ 76,450	\$ 1,790	\$ 78,240	\$ 20,323	385.0%	87.2%

Note: The schedule is provided prospectively beginning with the City's fiscal year ended December 31, 2015 and is intended to show a ten year trend. Additional years will be reported as they become available. 2020 was the first year during which City employees participated in the Public Employees Police and Fire Pension Plan.

CITY OF SCANDIA, MINNESOTA
SCHEDULE OF CITY PENSION CONTRIBUTIONS
LAST TEN YEARS (Presented Prospectively)

For the Fiscal Year Ended December 31	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contribution	Contribution Deficiency (Excess)	City's Covered Payroll	Contributions as a Percentage of Covered Payroll
<i>General Employees Retirement Pension Plan</i>					
2023	\$ 31,393	\$ 31,393	\$ -	\$ 418,575	7.50%
2022	\$ 35,278	\$ 35,278	\$ -	\$ 470,373	7.50%
2021	\$ 31,626	\$ 31,626	\$ -	\$ 421,680	7.50%
2020	\$ 32,939	\$ 32,939	\$ -	\$ 439,187	7.50%
2019	\$ 29,072	\$ 29,072	\$ -	\$ 387,627	7.50%
2018	\$ 27,150	\$ 27,150	\$ -	\$ 362,002	7.50%
2017	\$ 27,172	\$ 27,172	\$ -	\$ 362,292	7.50%
2016	\$ 24,941	\$ 24,941	\$ -	\$ 334,592	7.45%
2015	\$ 25,468	\$ 25,468	\$ -	\$ 348,155	7.32%
<i>Public Employees Police and Fire Pension Plan</i>					
2023	\$ 8,946	\$ 8,946	\$ -	\$ 50,544	17.70%
2022	\$ 8,584	\$ 8,584	\$ -	\$ 48,497	17.70%
2021	\$ 7,854	\$ 7,854	\$ -	\$ 44,373	17.70%
2020	\$ 7,652	\$ 7,652	\$ -	\$ 43,232	17.70%
<i>Statewide Volunteer Firefighter Pension Plan</i>					
2023	\$ -	\$ -	\$ -	N/A	N/A
2022	\$ -	\$ -	\$ -	N/A	N/A
2021	\$ -	\$ -	\$ -	N/A	N/A
2020	\$ -	\$ -	\$ -	N/A	N/A
2019	\$ -	\$ -	\$ -	N/A	N/A
2018	\$ -	\$ -	\$ -	N/A	N/A
2017	\$ -	\$ -	\$ -	N/A	N/A
2016	\$ -	\$ -	\$ -	N/A	N/A
2015	\$ -	\$ -	\$ -	N/A	N/A

Note: The schedule is provided prospectively beginning with the City's fiscal year ended December 31, 2015 and is intended to show a ten year trend. Additional years will be reported as they become available. 2020 was the first year during which City employees participated in the Public Employees Police and Fire Pension Plan.

CITY OF SCANDIA, MINNESOTA
SCHEDULE OF CHANGES IN NET PENSION LIABILITY (ASSET)
STATEWIDE VOLUNTEER FIREFIGHTER FUND
LAST TEN YEARS (Presented Prospectively)

	Measurement Year Ended December 31,									
	2022	2021	2020	2019	2018	2017	2016	2015	2014	
Changes in Total Pension Liability (TPL)										
Balance at January 1st	\$ 774,018	\$ 712,593	\$ 659,574	\$ 490,428	\$ 545,327	\$ 617,019	\$ 654,741	\$ 636,294	\$ 629,967	
Service Cost	35,635	31,256	29,799	31,774	25,342	28,912	24,777	23,343	22,874	
Interest on the TPL	46,449	44,631	41,362	31,332	31,414	34,163	38,089	38,665	38,350	
Actuarial Experience (Gains)/Losses	(20,824)	(14,462)	(18,142)	(8,940)	(17,415)	(54,911)	(11,188)	(13,108)	(27,553)	
Changes in Benefit Level	-	-	-	114,980	-	73,244	-	-	-	
Benefit Payments	(71,000)	-	-	-	(94,240)	(153,100)	(89,400)	(30,453)	(27,344)	
Balance at December 31st	<u>\$ 764,278</u>	<u>\$ 774,018</u>	<u>\$ 712,593</u>	<u>\$ 659,574</u>	<u>\$ 490,428</u>	<u>\$ 545,327</u>	<u>\$ 617,019</u>	<u>\$ 654,741</u>	<u>\$ 636,294</u>	
Plan Fiduciary Net Position (PFNP)										
Balance at January 1st	\$ 1,028,982	\$ 902,162	\$ 752,345	\$ 604,335	\$ 687,094	\$ 723,513	\$ 735,277	\$ 730,400	\$ 658,422	
Fire State Aid	33,678	32,376	30,706	27,954	26,919	26,278	26,738	27,129	24,368	
Fire Supplemental Aid	6,797	6,802	6,778	6,472	6,405	6,359	6,486	6,638	5,896	
Supplemental Benefit Reimbursement	-	-	-	1,840	3,000	2,000	-	1,000	2,955	
Municipal Contributions	-	-	-	-	-	-	-	-	18,259	
Adjustment to Initial Asset Transfer	-	-	-	-	-	-	-	-	5,368	
Net Investment Income (Loss)	(147,582)	88,505	113,188	112,533	(23,964)	83,014	45,186	1,367	43,226	
Total Additions	(107,107)	127,683	150,672	148,799	12,360	117,651	78,410	36,134	100,072	
Benefit Payments	(71,000)	-	-	-	(94,240)	(153,100)	(89,400)	(30,453)	(27,344)	
Administrative Expenses	(930)	(863)	(855)	(789)	(879)	(970)	(774)	(804)	(750)	
Total Reductions	(71,930)	(863)	(855)	(789)	(95,119)	(154,070)	(90,174)	(31,257)	(28,094)	
Balance at December 31st	<u>\$ 849,945</u>	<u>\$ 1,028,982</u>	<u>\$ 902,162</u>	<u>\$ 752,345</u>	<u>\$ 604,335</u>	<u>\$ 687,094</u>	<u>\$ 723,513</u>	<u>\$ 735,277</u>	<u>\$ 730,400</u>	
Net Pension Liability (Asset) - December 31st	<u>\$ (85,667)</u>	<u>\$ (254,964)</u>	<u>\$ (189,569)</u>	<u>\$ (92,771)</u>	<u>\$ (113,907)</u>	<u>\$ (141,767)</u>	<u>\$ (106,494)</u>	<u>\$ (80,536)</u>	<u>\$ (94,106)</u>	
Plan Fiduciary Net Position as a Percentage of Total Pension Liability (Asset)	111%	133%	127%	114%	123%	126%	117%	112%	115%	

Note: The schedule is provided prospectively beginning with the City's fiscal year ended December 31, 2015 (December 31, 2014 measurement date) and is intended to show a ten year trend. Additional years will be reported as they become available.

CITY OF SCANDIA, MINNESOTA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2023

NOTE 1 PUBLIC EMPLOYEES RETIREMENT PLAN – GENERAL EMPLOYEES FUND

2023 Changes

Changes in Actuarial Assumptions

- The investment return assumption and single discount rate were changed from 6.50 percent to 7.00 percent.

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, non-compounding benefit increase of 2.50 percent minus the actual 2024 adjustment will be payable in a lump sum for calendar year 2024 by March 31, 2024.

2022 Changes

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

2021 Changes

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

2020 Changes

Changes in Actuarial Assumptions

- The price inflation assumption was decreased from 2.50 percent to 2.25 percent.
- The payroll growth assumption was decreased from 3.25 percent to 3.00 percent.
- 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 percent 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.

CITY OF SCANDIA, MINNESOTA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2023

NOTE 1 PUBLIC EMPLOYEES RETIREMENT PLAN – GENERAL EMPLOYEES FUND (Continued)

- The assumed number of married male new retirees electing the 100.00 percent Joint & Survivor option changed from 35.00 percent to 45.00 percent. The assumed number of married female new retirees electing the 100.00 percent Joint & Survivor option changed from 15.00 percent to 30.00 percent. 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 2.00 percent for the period July 1, 2020 through December 31, 2023 and 0.00 percent after. Augmentation was eliminated for privatizations occurring after June 30, 2020.

2019 Changes

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

Changes in Actuarial Assumptions

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

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

2017 Changes

Changes in Actuarial Assumptions

- The Combined Service Annuity (CSA) loads were changed from 0.80 percent for active members and 60.00 percent for vested and non-vested deferred members. The revised CSA loads are now 0.00 percent for active member liability, 15.00 percent for vested deferred member liability and 3.00 percent for non-vested deferred member liability.
- The assumed postretirement benefit increase rate was changed from 1.00 percent per year for all years to 1.00 percent per year through 2044 and 2.50 percent per year thereafter.

CITY OF SCANDIA, MINNESOTA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2023

NOTE 1 PUBLIC EMPLOYEES RETIREMENT PLAN – GENERAL EMPLOYEES FUND (Continued)

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

Changes in Actuarial Assumptions

- The assumed postretirement benefit increase rate was changed from 1.00 percent per year through 2035 and 2.50 percent per year thereafter to 1.00 percent per year for all years.
- The assumed investment return was changed from 7.90 percent to 7.50 percent. The single discount rate changed from 7.90 percent to 7.50 percent.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, the inflation were decreased by 0.25 percent to 3.25 percent for payroll growth and 2.50 percent for inflation.

Changes in Plan Provisions

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

2015 Changes

Changes in Actuarial Assumptions

- The assumed postretirement benefit increase rate was changed from 1.00 percent per year through 2030 and 2.50 percent per year thereafter to 1.00 percent per year through 2035 and 2.50 percent 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 increased the fiduciary plan net position by \$892 million. Upon consolidation, State and employer contributions were revised; the State’s contribution of \$6 million, which meets the special funding situation definition, was due September 2015.

NOTE 2 PUBLIC EMPLOYEES RETIREMENT PLAN – POLICE AND FIRE FUND

2023 Changes

Changes in Actuarial Assumptions:

- The investment return assumption was changed from 6.50 percent to 7.00 percent.
- The single discount rate changed from 5.40 percent to 7.00 percent.

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 50.00 percent vesting after five years, increasing incrementally to 100.00 percent after 10 years.
- A one-time, non-compounding benefit increase of 3.00 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.

CITY OF SCANDIA, MINNESOTA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2023

NOTE 2 PUBLIC EMPLOYEES RETIREMENT PLAN – POLICE AND FIRE FUND (Continued)

- The total and permanent duty disability benefit was increased, effective July 1, 2023.

2022 Changes

Changes in Actuarial Assumptions

- The mortality projection scale was changed from MP-2020 to MP-2021.
- The single discount rate changed from 6.50 percent to 5.40 percent.

Changes in Plan Provisions

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

2021 Changes

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

2020 Changes

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

CITY OF SCANDIA, MINNESOTA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2023

NOTE 3 STATEWIDE VOLUNTEER FIREFIGHTER RETIREMENT PLAN

2022 Changes

Changes in Actuarial Assumptions

- There were no significant changes made to actuarial assumptions during 2022.

2021 Changes

Changes in Actuarial Assumptions

- There were no significant changes made to actuarial assumptions during 2021.

2020 Changes

Changes in Actuarial Assumptions

- There were no significant changes made to actuarial assumptions during 2020.

2019 Changes

Changes in Actuarial Assumptions

- There were no significant changes made to actuarial assumptions during 2019.

2018 Changes

Changes in Actuarial Assumptions

- There were no significant changes made to actuarial assumptions during 2018.

2017 Changes

Changes in Actuarial Assumptions

- There were no significant changes made to actuarial assumptions during 2017.

2016 Changes

Changes in Actuarial Assumptions

- There were no significant changes made to actuarial assumptions during 2016.

2015 Changes

Changes in Actuarial Assumptions

- There were no significant changes made to actuarial assumptions during 2015.

SUPPLEMENTARY INFORMATION

**CITY OF SCANDIA, MINNESOTA
 SUPPLEMENTAL COMBINING BALANCE SHEET
 MAJOR GOVERNMENTAL FUND – DEBT SERVICE FUND
 DECEMBER 31, 2023**

	2013 Equipment Certificates	2018A G.O. Street Bonds	Total Debt Service Fund
ASSETS			
Cash and Cash Equivalents	\$ 31,943	\$ 62,391	\$ 94,334
FUND BALANCE			
Restricted	\$ 31,943	\$ 62,391	\$ 94,334

**CITY OF SCANDIA, MINNESOTA
SUPPLEMENTAL COMBINING SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
MAJOR GOVERNMENTAL FUND – DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2023**

	2013 Equipment Certificates	2018A G.O. Street Bonds	Total Debt Service Fund
REVENUES			
Taxes	\$ 64,000	\$ 342,536	\$ 406,536
Investment Earnings (Losses)	-	1,291	1,291
TOTAL REVENUES	<u>64,000</u>	<u>343,827</u>	<u>407,827</u>
EXPENDITURES			
Debt Service:			
Principal	60,000	235,000	295,000
Interest and Other Charges	930	91,720	92,650
TOTAL EXPENDITURES	<u>60,930</u>	<u>326,720</u>	<u>387,650</u>
NET CHANGE IN FUND BALANCE	3,070	17,107	20,177
FUND BALANCE - BEGINNING	<u>28,873</u>	<u>45,284</u>	<u>74,157</u>
FUND BALANCE - ENDING	<u>\$ 31,943</u>	<u>\$ 62,391</u>	<u>\$ 94,334</u>

**CITY OF SCANDIA, MINNESOTA
COMBINING BALANCE SHEET
ALL NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2023**

	Special Revenue			Capital Project	Total Nonmajor Funds
	Economic Development Authority Fund	Cable TV Fund	Public Safety Aid Fund	Equipment Replacement Fund	
ASSETS					
Cash and Cash Equivalents	\$ 37,707	\$ 19,632	\$ 176,529	\$ 147,621	\$ 381,489
Accounts Receivable	-	2,078	-	-	2,078
Deposit on Asset	-	-	-	12,717	12,717
TOTAL ASSETS	<u>\$ 37,707</u>	<u>\$ 21,710</u>	<u>\$ 176,529</u>	<u>\$ 160,338</u>	<u>\$ 396,284</u>
LIABILITIES					
Accounts Payable	\$ -	\$ 332	\$ -	\$ 10,000	\$ 10,332
FUND BALANCES					
Nonspendable	-	-	-	12,717	12,717
Restricted	-	-	176,529	-	176,529
Committed	37,707	-	-	-	37,707
Assigned	-	21,378	-	137,621	158,999
Total Fund Balances	<u>37,707</u>	<u>21,378</u>	<u>176,529</u>	<u>150,338</u>	<u>385,952</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 37,707</u>	<u>\$ 21,710</u>	<u>\$ 176,529</u>	<u>\$ 160,338</u>	<u>\$ 396,284</u>

CITY OF SCANDIA, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
ALL NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2023

	Special Revenue			Capital Project	
	Economic Development Authority Fund		Public Safety Aid Fund	Equipment Replacement Fund	
	Cable TV Fund	Total Nonmajor Funds			
REVENUES					
Taxes	\$ 5,300	\$ -	\$ -	\$ -	\$ 5,300
Franchise Taxes	-	25,531	-	-	25,531
Intergovernmental	-	-	176,529	-	176,529
Charges for Services	800	-	-	-	800
Interest Earnings (Losses)	735	302	-	3,958	4,995
Miscellaneous	300	300	-	18,851	19,451
TOTAL REVENUES	<u>7,135</u>	<u>26,133</u>	<u>176,529</u>	<u>22,809</u>	<u>232,606</u>
EXPENDITURES					
Current:					
General Government	-	16,134	-	-	16,134
Economic Development	4,470	-	-	-	4,470
Capital Outlay	-	-	-	73,019	73,019
TOTAL EXPENDITURES	<u>4,470</u>	<u>16,134</u>	<u>-</u>	<u>73,019</u>	<u>93,623</u>
NET CHANGE IN FUND BALANCES	2,665	9,999	176,529	(50,210)	138,983
FUND BALANCES - BEGINNING	<u>35,042</u>	<u>11,379</u>	<u>-</u>	<u>200,548</u>	<u>246,969</u>
FUND BALANCES - ENDING	<u>\$ 37,707</u>	<u>\$ 21,378</u>	<u>\$ 176,529</u>	<u>\$ 150,338</u>	<u>\$ 385,952</u>

**CITY OF SCANDIA, MINNESOTA
SCHEDULE OF INDEBTEDNESS
FOR THE YEAR ENDED DECEMBER 31, 2023
(UNAUDITED)**

	<u>Issue Dates</u>	<u>Interest Rates</u>	<u>Maturity Dates</u>	<u>Initial Authorized Issue</u>	<u>Outstanding Balance 01/01/23</u>	<u>Issued</u>	<u>Paid</u>	<u>Outstanding Balance 12/31/23</u>	<u>Principal Due Within One Year</u>
GOVERNMENTAL INDEBTEDNESS									
	7/1/2013	0.80-3.10%	7/1/2023	\$ 570,000	\$ 60,000	\$ -	\$ 60,000	\$ -	\$ -
	5/15/2018	3.00-3.13%	12/15/2033	<u>3,835,000</u>	<u>3,015,000</u>	<u>-</u>	<u>235,000</u>	<u>2,780,000</u>	<u>245,000</u>
TOTAL INDEBTEDNESS				<u>\$ 4,405,000</u>	<u>\$ 3,075,000</u>	<u>\$ -</u>	<u>\$ 295,000</u>	<u>\$ 2,780,000</u>	<u>\$ 245,000</u>

OTHER REQUIRED REPORTS

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL
CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Honorable Mayor and City Council
City of Scandia, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Scandia, Minnesota (the City), as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the City of Scandia's basic financial statements and have issued our report thereon dated April 12, 2024.

Report on Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying *Schedule of Findings and Responses*, we identified certain deficiencies in internal control that we consider to be material weaknesses and a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying *Schedule of Findings and Responses* as items 2013-001, 2019-001, and 2023-001 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying *Schedule of Findings and Responses* as item 2019-002 to be a significant deficiency.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Scandia'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*.

Minnesota Legal Compliance

In connection with our audit, nothing came to our attention that caused us to believe that the City of Scandia failed to comply with the provisions of the contracting – bid laws, depositories of public funds and public investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions 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.

City of Scandia's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the City of Scandia's response to the findings identified in our audit and described in the accompanying *Schedule of Findings and Responses*. The City of Scandia'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 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 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.



SCHLENNER WENNER & CO.

St. Cloud, Minnesota

April 12, 2024

**CITY OF SCANDIA, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2023**

FINANCIAL STATEMENT FINDINGS

Finding 2013-001 Limited Segregation of Duties

Condition: The City has limited segregation of accounting duties.

Criteria: The basic premise of proper segregation of duties is that no one employee should have access to both physical assets and the related accounting records or to all phases of the transaction.

Cause: There are a limited number of employees.

Effect: The City's lack of adequate segregation of accounting duties could adversely affect the City's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

Recommendation: Although the number of employees may not be large enough to eliminate this deficiency, we recommend that the City evaluate current procedures and segregate where possible and implement compensating controls. It is important that the Council is aware of this condition and monitor all financial information.

*Views of Responsible
Officials And Planned
Corrective Actions:* Management agrees with the recommendation. See corresponding Corrective Action Plan.

Finding 2019-001 Material Audit Adjustments

Condition: Audit adjustments were required to correct material misstatements identified in the trial balance presented for the audit.

Criteria: The City is required to report financial information in accordance with accounting principles generally accepted in the United States of America.

Cause: The City failed to record all year-end adjustments required under the accrual basis of accounting and various other adjustments were required to correct misstatements.

Effect: The misstatements in the trial balance presented for the audit resulted in the need to record audit adjustments to achieve fair financial statement presentation under accounting principles generally accepted in the United States of America.

Recommendation: We recommend management perform a thorough review of the trial balance prior to the audit and ensure all accounts have been properly adjusted at year-end.

*Views of Responsible
Officials And Planned
Corrective Actions:* Management agrees with the recommendation. See corresponding Corrective Action Plan.

**CITY OF SCANDIA, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2023**

FINANCIAL STATEMENT FINDINGS (Continued)

Finding 2019-002 Financial Statement Preparation

Condition: Schlenner Wenner & Co. drafts the financial statements for the City. These financial statements, including disclosures, were reviewed by management and management has taken responsibility for them. However, we believe that management would require additional training in accounting principles generally accepted in the United States of America to adequately apply such standards internally.

Criteria: Internal controls over financial reporting should be in place to provide for the preparation of financial statements on an annual basis.

Cause: The City's staff does not possess the expertise to prepare financial statements internally. This is not unusual for a City of your size.

Effect: The inability to internally prepare the City's financial statements can result in undetected errors in financial reporting.

Recommendation: While the City may not have adequate controls in place to eliminate this finding, the City should document its annual review of the financial statements.

*Views of Responsible
Officials And Planned
Corrective Actions:*

Management agrees with the recommendation. See corresponding Corrective Action Plan.

Finding 2023-001 Prior Period Adjustment

Condition: The City's prior year financial statements contained a material misstatement.

Criteria: The City is required to report accurate financial information that is accurately presented in accordance with accounting principles generally accepted within the United States of America.

Cause: Expenditures paid during the year ended December 31, 2022 were inadvertently included in the December 31, 2022 accounts payable balances, resulting in an overstatement in December 31, 2022 accounts payable and an understatement in the December 31, 2022 fund balance and governmental activities net position. See further details described in Note 6.D. in the notes to the basic financial statements.

Effect: The misstatements in the prior year's audited financial statements resulted in the need to restate beginning fund balance and net position of the current year.

Recommendation: We recommend management perform a thorough review of the audited financial statements and year-end adjustments to ensure their accuracy and completeness.

*Views of Responsible
Officials and Planned
Corrective Actions:*

Management agrees with our recommendation. See corresponding Corrective Action Plan.

**CITY OF SCANDIA, MINNESOTA
CORRECTIVE ACTION PLANS
DECEMBER 31, 2023**

FINANCIAL STATEMENT FINDINGS

Finding 2013-001 Limited Segregation of Duties

1. Explanation of Disagreement with Audit Finding
There is no disagreement with the audit finding.
2. Actions Planned in Response to Finding
The City currently has the following procedures in place:
 - The City's Department Heads review all invoices received. The City Council also reviews the monthly invoices and approves the expenditures.
 - The City utilizes claim listings which are approved by the City Administrator.The City will review current procedures and implement additional controls where possible.
3. Office Responsible
Kyle Morell, City Administrator, is the official responsible for ensuring corrective action.
4. Planned Completion Date
The Corrective Action Plan will be reviewed on an ongoing basis with no anticipated completion date.
5. Plan to Monitor Completion
The City Council will be monitoring the Corrective Action Plan.

Finding 2019-001 Material Audit Adjustments

1. Explanation of Disagreement with Audit Finding
There is no disagreement with the audit finding.
2. Actions Planned in Response to Finding
The City will continue to have Schlenner Wenner & Co. prepare certain audit adjustments and the City will review the adjustments and schedules provided to the auditor. The City will be more diligent in the review of schedules, including those prepared by third parties, to ensure they are correct and agree with the unaudited trial balance.
3. Office Responsible
Kyle Morell, City Administrator, is the official responsible for ensuring corrective action.
4. Planned Completion Date
The Corrective Action Plan will be reviewed on an ongoing basis with no anticipated completion date.
5. Plan to Monitor Completion
The City Council will be monitoring the Corrective Action Plan.

**CITY OF SCANDIA, MINNESOTA
CORRECTIVE ACTION PLANS
DECEMBER 31, 2023**

FINANCIAL STATEMENT FINDINGS (Continued)

Finding 2019-002 Financial Statement Preparation

1. Explanation of Disagreement with Audit Finding
There is no disagreement with the audit finding.
2. Actions Planned in Response to Finding
The City will continue to have Schlenner Wenner & Co. prepare the financial statements and will continue to document the annual review of the financial statements and related footnote disclosures.
3. Office Responsible
Kyle Morell, City Administrator, is the official responsible for ensuring corrective action.
4. Planned Completion Date
The Corrective Action Plan will be reviewed on an ongoing basis with no anticipated completion date.
5. Plan to Monitor Completion
The City Council will be monitoring the Corrective Action Plan.

Finding 2023-001 Prior Period Adjustment

1. Explanation of Disagreement with Audit Finding
There is no disagreement with the audit finding.
2. Actions Planned in Response to Finding
The City will perform a thorough review of the audited financial statements and year-end adjustments to ensure their accuracy and completeness.
3. Official Responsible
Kyle Morell, City Administrator, is the official responsible for ensuring corrective action.
4. Planned Completion Date
December 31, 2024.
5. Plan to Monitor Completion
The City Council will be monitoring this Corrective Action Plan.