

City of Scandia, Minnesota

Audited Financial Statements

December 31, 2022

**SCHLENNER
WENNER & CO.**
CPAs

**CITY OF SCANDIA, MINNESOTA
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**INTRODUCTORY
SECTION**

**CITY OF SCANDIA, MINNESOTA
CITY COUNCIL AND OFFICIALS
FOR THE YEAR ENDED DECEMBER 31, 2022**

CITY COUNCIL

Term Expires

Christine Maefsky	Mayor	December 31, 2022
Heather Benson	Council Member	December 31, 2024
Jerry Cusick	Council Member	December 31, 2022
Steve Kronmiller	Council Member	December 31, 2024
Patti Ray	Council Member	December 31, 2022

CITY OFFICIALS

Ken Cammilleri	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, as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* (GAS), 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.

Responsibilities of Management for the Financial Statements

The City of Scandia's 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 GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of 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 information, and pension schedules 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 of Scandia, Minnesota's basic financial statements. The accompanying introductory section, combining and individual nonmajor fund financial statements and 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 fund financial statements and 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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 fund financial statements and 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 May 16, 2023 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 of Scandia'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.



SCHLENNER WENNER & CO.

St. Cloud, Minnesota

May 16, 2023

**REQUIRED SUPPLEMENTARY
INFORMATION**

**CITY OF SCANDIA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2022**

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, 2022. Please read it in conjunction with the independent auditor's report on page four and the City's financial statements, which begin on page eighteen.

FINANCIAL HIGHLIGHTS

- The City's net position increased \$218,024 compared to the prior year as a result of this year's operations.
- The City's General Fund generated more revenue than budgeted by \$30,700, excluding transfers in from other funds. Expenditures were more than budgeted by \$57,300, 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-four.
- The unassigned fund balance in the General Fund of \$1,333,169 is 71 percent of the 2022 General Fund budgeted expenditures, excluding budgeted transfers to other funds.
- In the City's Sewer utility funds, revenues increased \$9,114 (or 7.47 percent), while operating expenses increased \$17,749 (or 14.69 percent). The City's utility funds ended 2022 with a net loss of \$7,427, with the cash position decreasing \$21,554.

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 eighteen and nineteen) 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. 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 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, 2022**

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 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, 2022**

THE CITY AS A WHOLE

The City's combined net position increased \$218,024 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	
	2022	2021	2022	2021	2022	2021
Current and Other Assets	\$ 4,627,615	\$ 4,816,494	\$ 96,305	\$ 111,262	\$ 4,723,920	\$ 4,927,756
Net Capital Assets	<u>15,010,557</u>	<u>14,799,007</u>	<u>919,667</u>	<u>911,078</u>	<u>15,930,224</u>	<u>15,710,085</u>
Total Assets	19,638,172	19,615,501	1,015,972	1,022,340	20,654,144	20,637,841
Deferred Outflows of Resources	315,010	278,786	8,418	9,218	323,428	288,004
Current Liabilities	588,995	515,059	9,073	8,382	598,068	523,441
Noncurrent Liabilities	<u>3,794,931</u>	<u>3,754,158</u>	<u>23,663</u>	<u>12,662</u>	<u>3,818,594</u>	<u>3,766,820</u>
Total Liabilities	4,383,926	4,269,217	32,736	21,044	4,416,662	4,290,261
Deferred Inflows of Resources	139,259	420,524	320	11,753	139,579	432,277
Net Position:						
Net Investment in Capital Assets	11,894,552	11,357,274	919,667	911,078	12,814,219	12,268,352
Restricted	528,521	271,801	-	-	528,521	271,801
Unrestricted	<u>3,006,924</u>	<u>3,575,471</u>	<u>71,667</u>	<u>87,683</u>	<u>3,078,591</u>	<u>3,663,154</u>
Total Net Position	<u>\$15,429,997</u>	<u>\$15,204,546</u>	<u>\$ 991,334</u>	<u>\$ 998,761</u>	<u>\$16,421,331</u>	<u>\$16,203,307</u>

The net position of the City's governmental activities increased by \$225,451 (or 1.48 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 \$568,547 (or 15.90 percent) compared to the prior year.

The net position of the City's business-type activities decreased by \$7,427 (or 0.74 percent). The unrestricted portion of net position decreased by a greater margin (18.27 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, 2022**

THE CITY AS A WHOLE (Continued)

**Table 2
Changes in Net Position**

	Governmental Activities		Business-Type Activities		Total Government	
	2022	2021	2022	2021	2022	2021
REVENUE						
Charges for Services	\$ 245,200	\$ 315,332	\$ 127,225	\$ 121,133	\$ 372,425	\$ 436,465
Operating Grants and Contributions	64,871	136,745	-	-	64,871	136,745
Capital Grants and Contributions	4,652	1,126	3,425	624	8,077	1,750
Taxes	2,604,523	2,533,874	-	-	2,604,523	2,533,874
Intergovernmental	262,247	270,866	103	32	262,350	270,898
Franchise Fees	28,312	30,158	-	-	28,312	30,158
Investment Income	16,482	11,701	397	247	16,879	11,948
Other	14,752	18,986	-	-	14,752	18,986
Total Revenues	3,241,039	3,318,788	131,150	122,036	3,372,189	3,440,824
PROGRAM EXPENSES						
General Government	885,902	555,611	-	-	885,902	555,611
Public Safety	569,530	543,177	-	-	569,530	543,177
Public Works	1,228,071	1,336,615	-	-	1,228,071	1,336,615
Culture and Recreation	228,834	183,587	-	-	228,834	183,587
Economic Development	4,713	2,754	-	-	4,713	2,754
Debt Service	98,538	108,153	-	-	98,538	108,153
Big Marine Sewer	-	-	117,062	101,246	117,062	101,246
Uptown Sewer	-	-	21,515	19,582	21,515	19,582
Total Expenses	3,015,588	2,729,897	138,577	120,828	3,154,165	2,850,725
Gain on Sale of Assets	-	42,038	-	-	-	42,038
Change in Net Position	225,451	630,929	(7,427)	1,208	218,024	632,137
Net Position - Beginning of Year	<u>15,204,546</u>	<u>14,573,617</u>	<u>998,761</u>	<u>997,553</u>	<u>16,203,307</u>	<u>15,571,170</u>
Net Position - End of Year	<u>\$ 15,429,997</u>	<u>\$ 15,204,546</u>	<u>\$ 991,334</u>	<u>\$ 998,761</u>	<u>\$ 16,421,331</u>	<u>\$ 16,203,307</u>

The City's total revenues decreased by \$68,635 (or 1.99 percent). Operations were comparable to the prior year, but various changes of significance include:

- Charges for Services revenues decreased by \$64,040 from 2021, primarily due to greater residential development occurring within the City during 2021 that resulted in an increase in permits issued and related charges during the prior year.
- Operating Grants and Contributions decreased by \$71,874 from 2021, primarily due the receipt of Small Cities Assistance funding from the State in 2021, but not in 2022.
- Revenues from taxes increased \$70,649 as a result of additional ad valorem property taxes levied for the year.

**CITY OF SCANDIA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2022**

THE CITY AS A WHOLE (Continued)

The total cost of all programs and services increased by \$303,440 (or 10.64 percent), primarily due to increases in General Government 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 decreased \$77,749 (or 2.34 percent), while total expenses increased by \$285,691 (or 10.47 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 increased \$367,250, largely due to expenses incurred in the current year for the City's share of broadband infrastructure being installed throughout the City, as well as costs incurred for other noncapital purchases and personnel compensation.
- Public safety net cost of services increased \$61,728. While a portion of this increase can be attributed to additional expenses recognized for the depreciation of capital assets, the decrease in revenues from building permit sales was actually the more substantial driver for the decrease in the net costs of this department.

**Table 3
Governmental Activities**

	Total Cost of Services		Net Cost of Services	
	2022	2021	2022	2021
General Government	\$ 885,902	\$ 555,611	\$ 860,659	\$ 493,409
Public Safety	569,530	543,177	336,746	275,018
Public Works	1,228,071	1,336,615	1,196,685	1,233,495
Culture and Recreation	228,834	183,587	204,274	163,865
Economic Development	4,713	2,754	3,963	2,754
Debt Service	98,538	108,153	98,538	108,153
Totals	<u>\$ 3,015,588</u>	<u>\$ 2,729,897</u>	<u>\$ 2,700,865</u>	<u>\$ 2,276,694</u>

Business-type Activities

Revenues of the City's business-type activities (see Table 2) increased by \$9,114 (or 7.47 percent). Expenses increased by \$17,749 (or 14.69 percent). Operations were comparable to those of the prior year.

**CITY OF SCANDIA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2022**

THE CITY'S FUNDS

Governmental Funds

As the City completed the year, its governmental funds (as presented in the balance sheet on page twenty) reported a combined fund balance of \$3,719,547. This is a decrease of \$318,980 (or 7.90 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:

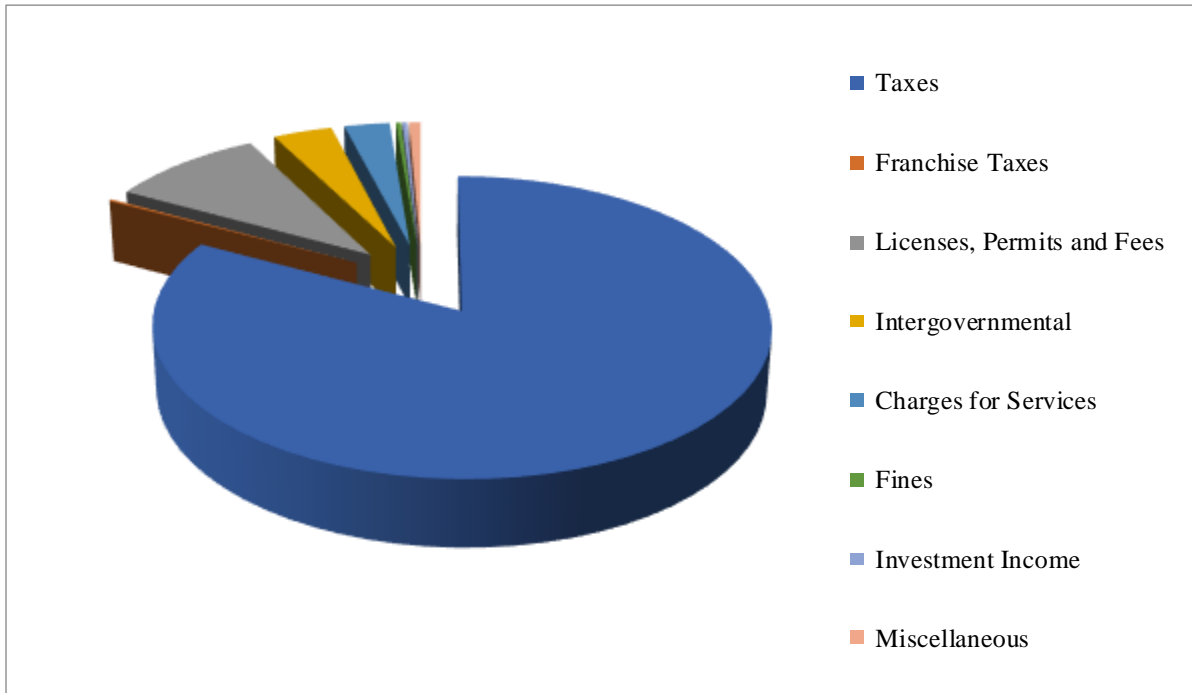
- Significant expenditures were incurred for capital outlay again in the current year, as discussed in greater detail below.

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)
	2022	2021	
General	\$ 1,349,787	\$ 1,350,294	\$ (507)

The fund balance of the General Fund decreased by \$507 as a result of current year operations. In comparison to the prior year, revenues increased 5.70 percent and expenditures increased 11.67 percent.

General Fund Revenue

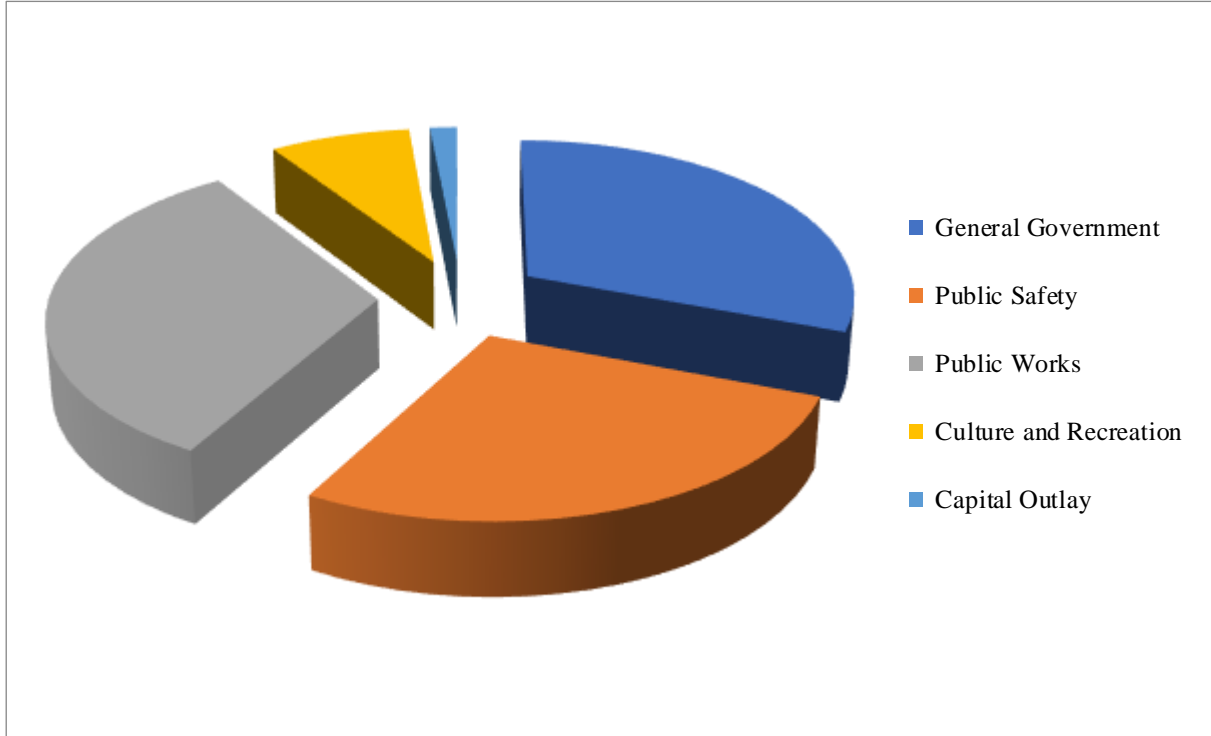


The City receives the majority of its funding in the General Fund in the form of taxes (82.75 percent), licenses, permits, and fees (9.40 percent), intergovernmental (3.60 percent), and charges for services (2.75 percent). Overall, the City's General Fund revenues were comparable to the prior year, with the exception of matters previously discussed.

**CITY OF SCANDIA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2022**

THE CITY'S FUNDS (Continued)

General Fund Expenditures



A significant portion of the City's General Fund expenditures are used for public works (32.55 percent). Remaining expenditures are used primarily on public safety (27.31 percent) and general government operations (30.80 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 \$30,700, including transfers from other funds. Expenditures, including transfers out to other funds, were more than those budgeted by \$57,300. See additional detail pertaining to differences between budgeted and actual amounts within the General Fund and at the Budgetary Comparison Schedule on page fifty-four.

Major Funds	Fund Balance December 31,		Increase (Decrease)
	2022	2021	
Capital Improvement Fund	\$ 564,735	\$ 635,904	\$ (71,169)

At December 31, 2022, the Capital Improvement Fund has a cash balance of \$754,297. The fund balance of the Capital Improvement Fund decreased by \$71,169. Significant activity in this fund during 2022 included the hiring of a lobbying firm, as well as the City's share of various broadband expansion costs.

**CITY OF SCANDIA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2022**

THE CITY'S FUNDS (Continued)

Major Funds	Fund Balance December 31,		Increase (Decrease)
	2022	2021	
Local Road Improvement Fund	\$ 896,739	\$ 1,252,549	\$ (355,810)

At December 31, 2022, the Local Road Improvement Fund has a cash balance of \$932,798. The fund balance decreased by \$355,810 primarily due to capital expenditures for street reconstruction projects exceeding the revenue sources for the fund.

Debt Service	\$ 74,157	\$ 45,963	\$ 28,194
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At December 31, 2022, the Debt Service Fund has a cash balance of \$74,157. The fund balance increased by \$28,194 primarily due to revenues from property taxes exceeding the payment of principal and interest.

COVID Relief	\$ 456,363	\$ 228,181	\$ 228,182
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At December 31, 2022, the Covid Relief Fund has a cash balance of \$456,363. The fund balance increased by \$228,182 due to additional Federal covid funding being received from the government during the year, but not yet spent.

Proprietary Funds

As the City completed the year, its business-type activities (as presented in the statement of net position on page twenty-four) reported a combined net position of \$991,334. This is a decrease of \$7,427 from the prior year. Other operations were comparable to the prior year. The following is a summary of the City's proprietary funds:

Funds	Net Position December 31,		Increase (Decrease)
	2022	2021	
Big Marine Sewer Fund	\$ 830,254	\$ 833,692	\$ (3,438)

The Big Marine Sewer Fund provides sanitary sewer services to customers in the Anderson-Erickson and Bliss subdivisions. At December 31, 2022, the fund had a cash balance of \$69,667 with a decrease in cash of \$19,998 for the year. The decrease in cash is attributable to an increase in capital project activity. The fund's net position decreased \$3,438 during the current year primarily due to operating expenses exceeding revenues from charges for services and connection fees.

Uptown Sewer Fund	\$ 161,080	\$ 165,069	\$ (3,989)
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The Uptown Sewer Fund provides sanitary sewer services to commercial customers near the Olinda Trail / Oakhill intersection. At December 31, 2022, the fund had a cash balance of \$14,022 with a decrease in cash of \$1,556 for the year. The decrease in cash is attributable to increase repairs and maintenance costs in the current year. The fund's net position decreased \$3,989 during the year as a result of operating expenses exceeding revenues from charges for services.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2022, the City had \$15,930,224 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 \$220,139 (or 1.40 percent) from last year.

**CITY OF SCANDIA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2022**

CAPITAL ASSET AND DEBT ADMINISTRATION (Continued)

**Table 4
Capital Assets Net of Depreciation**

	Governmental Activities		Business-Type Activities		Totals	
	2022	2021	2022	2021	2022	2021
Land	\$ 487,735	\$ 487,735	\$ -	\$ -	\$ 487,735	\$ 487,735
Construction In Progress	622,277	24,710	21,088	-	643,365	24,710
Buildings	1,124,127	1,178,174	-	-	1,124,127	1,178,174
Equipment	683,948	657,737	227,455	205,077	911,403	862,814
Vehicles	708,236	703,801	-	-	708,236	703,801
Infrastructure	11,253,829	11,663,276	-	-	11,253,829	11,663,276
Other Improvements	130,405	83,574	-	-	130,405	83,574
Sewer Plant	-	-	510,000	540,000	510,000	540,000
Uptown Sewer	-	-	161,124	166,001	161,124	166,001
Totals	<u>\$ 15,010,557</u>	<u>\$ 14,799,007</u>	<u>\$ 919,667</u>	<u>\$ 911,078</u>	<u>\$ 15,930,224</u>	<u>\$ 15,710,085</u>

Significant capital asset acquisitions during 2022 were:

- Capital outlay for 2022 road improvement project - \$566,051

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

Debt

In 2022, the City paid off \$322,000 of the \$3,397,000 in debt that was outstanding at December 31, 2021. The City did not issue any new debt during 2022, bringing the total year-end balance of debt outstanding at December 31, 2022 to \$3,075,000. 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 2023 budget, including tax rates and fees that will be charged for business-type activities. The 2023 tax levy increased 8.70% from \$2,579,051 in 2022 to \$2,803,556 in 2023. The City's tax rate decreased 15% from 30.945% to 26.235% mainly due to increased tax capacity from increased home valuations. The net effect on the local tax rate was negative -6.52%. At budget time mid-year 2022 the estimated inflation rate for 2023 was 2.8-3.5%. At the end of 2022 the rate was 6.5% and is expected to remain in the 5-6% range in 2023. The City's challenge will be to maintain expenses within budget for 2023 due to the increase in inflation.

The City's continued use of a long-term financial management plan will help the City make predictions on 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 a key factor to consider to the City's capital expenditures.

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

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, 2022**

	Governmental Activities	Business-Type Activities	Totals
ASSETS			
Cash and Cash Equivalents	\$ 4,211,569	\$ 83,689	\$ 4,295,258
Property Taxes Receivable	68,887	-	68,887
Assessments Receivable	29,673	4,356	34,029
Accounts Receivable	32,470	21,448	53,918
Interest Receivable	246	-	246
Internal Balances	13,188	(13,188)	-
Inventory	2,220	-	2,220
Prepays	14,398	-	14,398
Noncurrent Assets:			
Capital Assets Not Being Depreciated	1,110,012	21,088	1,131,100
Capital Assets Being Depreciated (Net)	13,900,545	898,579	14,799,124
Net Pension Asset	254,964	-	254,964
TOTAL ASSETS	<u>19,638,172</u>	<u>1,015,972</u>	<u>20,654,144</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pensions	315,010	8,418	323,428
LIABILITIES			
Accounts Payable	431,650	7,144	438,794
Salaries Payable	92,862	1,357	94,219
Accrued Interest Payable	1,999	-	1,999
Construction Contracts Payable	13,596	-	13,596
Deposits Payable	48,888	-	48,888
Unearned Revenue	-	572	572
Noncurrent Liabilities:			
Amount Due Within One Year	320,995	-	320,995
Amount Due After One Year	2,821,005	-	2,821,005
Net Pension Liability	652,931	23,663	676,594
TOTAL LIABILITIES	<u>4,383,926</u>	<u>32,736</u>	<u>4,416,662</u>
DEFERRED INFLOWS OF RESOURCES			
Pensions	139,259	320	139,579
NET POSITION			
Net Investment in Capital Assets	11,894,552	919,667	12,814,219
Restricted	528,521	-	528,521
Unrestricted	3,006,924	71,667	3,078,591
TOTAL NET POSITION	<u>\$ 15,429,997</u>	<u>\$ 991,334</u>	<u>\$ 16,421,331</u>

**CITY OF SCANDIA, MINNESOTA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2022**

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	\$ 885,902	\$ 25,243	\$ -	\$ -	\$ (860,659)	\$ -	\$ (860,659)
Public Safety	569,530	193,606	39,178	-	(336,746)	-	(336,746)
Public Works	1,228,071	8,990	17,744	4,652	(1,196,685)	-	(1,196,685)
Culture and Recreation	228,834	16,611	7,949	-	(204,274)	-	(204,274)
Economic Development	4,713	750	-	-	(3,963)	-	(3,963)
Debt Service	98,538	-	-	-	(98,538)	-	(98,538)
Total Governmental Activities	3,015,588	245,200	64,871	4,652	(2,700,865)	-	(2,700,865)
Business-Type Activities:							
Big Marine Sewer	117,062	109,783	-	3,425	-	(3,854)	(3,854)
Uptown Sewer	21,515	17,442	-	-	-	(4,073)	(4,073)
Total Business-Type Activities	138,577	127,225	-	3,425	-	(7,927)	(7,927)
TOTALS	\$ 3,154,165	\$ 372,425	\$ 64,871	\$ 8,077	(2,700,865)	(7,927)	(2,708,792)
General Revenues:							
Taxes					2,604,523	-	2,604,523
Franchise and Other Tax					28,312	-	28,312
Intergovernmental					262,247	103	262,350
Investment Income					16,482	397	16,879
Miscellaneous					14,752	-	14,752
Total General Revenues					2,926,316	500	2,926,816
CHANGE IN NET POSITION					225,451	(7,427)	218,024
NET POSITION - BEGINNING OF YEAR					15,204,546	998,761	16,203,307
NET POSITION - END OF YEAR					\$ 15,429,997	\$ 991,334	\$ 16,421,331

**CITY OF SCANDIA, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2022**

	General Fund	Capital Project		Debt Service Fund	COVID Relief Fund	Total Nonmajor Funds	Total Governmental Funds
		Capital Improvement Fund	Local Road Improvement Fund				
ASSETS							
Cash and Cash Equivalents	\$ 1,609,915	\$ 754,297	\$ 932,798	\$ 74,157	\$ 456,363	\$ 384,039	\$ 4,211,569
Property Taxes Receivable	68,887	-	-	-	-	-	68,887
Assessments Receivable	-	560	29,113	-	-	-	29,673
Accounts Receivable	30,464	-	-	-	-	2,006	32,470
Interest Receivable	246	-	-	-	-	-	246
Inventory	2,220	-	-	-	-	-	2,220
Prepays	14,398	-	-	-	-	-	14,398
Advances to Other Funds	-	42,188	-	-	-	-	42,188
TOTAL ASSETS	\$ 1,726,130	\$ 797,045	\$ 961,911	\$ 74,157	\$ 456,363	\$ 386,045	\$ 4,401,651
LIABILITIES							
Accounts Payable	\$ 177,158	\$ 231,750	\$ 22,463	\$ -	\$ -	\$ 279	\$ 431,650
Salaries Payable	92,862	-	-	-	-	-	92,862
Deposits Payable	48,888	-	-	-	-	-	48,888
Advances from Other Funds	21,000	-	-	-	-	8,000	29,000
Total Liabilities	339,908	231,750	36,059	-	-	8,279	615,996
DEFERRED INFLOWS OF RESOURCES							
Unavailable Revenue:							
Property Taxes	36,435	-	-	-	-	-	36,435
Special Assessments	-	560	29,113	-	-	-	29,673
Total Deferred Inflows of Resources	36,435	560	29,113	-	-	-	66,108
FUND BALANCES							
Nonspendable	16,618	42,188	-	-	-	-	58,806
Restricted	-	-	-	74,157	456,363	-	530,520
Committed	-	522,547	-	-	-	165,839	688,386
Assigned	-	-	896,739	-	-	211,927	1,108,666
Unassigned	1,333,169	-	-	-	-	-	1,333,169
Total Fund Balances	1,349,787	564,735	896,739	74,157	456,363	377,766	3,719,547
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 1,726,130	\$ 797,045	\$ 961,911	\$ 74,157	\$ 456,363	\$ 386,045	\$ 4,401,651

**CITY OF SCANDIA, MINNESOTA
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2022**

Total Fund Balances - Governmental Funds	\$	3,719,547
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 governmental funds:		
Capital Assets	\$	24,085,970
Accumulated Depreciation		<u>(9,075,413)</u>
Capital Assets (Net)		15,010,557
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds:		
Bonds and Equipment Certificates Principal Payable		(3,075,000)
Bond Premium, Net of Accumulated Amortization		(41,005)
Compensated Absences		<u>(25,995)</u>
		(3,142,000)
The net pension 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 funds:		
Net Pension Asset		254,964
Net Pension Liability		(652,931)
Deferred Outflows - Pensions		315,010
Deferred Inflows - Pensions		<u>(139,259)</u>
		(222,216)
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:		
		(1,999)
Other long-term assets are not available to pay for current-period expenditures and, therefore, are reported as unavailable in the funds:		
Property Taxes		36,435
Special Assessments		<u>29,673</u>
TOTAL NET POSITION OF GOVERNMENTAL ACTIVITIES	\$	<u>15,429,997</u>

CITY OF SCANDIA, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2022

	General Fund	Capital Project		Debt Service Fund	COVID Relief Fund	Total Nonmajor Funds	Total Governmental Funds
		Capital Improvement Fund	Local Road Improvement Fund				
REVENUES							
Taxes	\$ 1,607,142	\$ 217,336	\$ 216,860	\$ 446,055	\$ -	\$ 115,800	\$ 2,603,193
Franchise Taxes	4,115	-	-	-	-	24,197	28,312
Special Assessments	-	-	-	-	-	6,731	6,731
Licenses, Permits, and Fees	182,640	-	-	-	-	-	182,640
Intergovernmental	69,875	-	17,744	-	228,182	10,125	325,926
Charges for Services	53,383	-	-	-	-	750	54,133
Fines	6,027	-	-	-	-	-	6,027
Interest Income	5,459	3,126	4,655	193	-	3,049	16,482
Miscellaneous	13,452	-	-	-	-	11,649	25,101
TOTAL REVENUES	<u>1,942,093</u>	<u>220,462</u>	<u>239,259</u>	<u>446,248</u>	<u>228,182</u>	<u>172,301</u>	<u>3,248,545</u>
EXPENDITURES							
Current:							
General Government	598,355	-	-	-	-	52,533	650,888
Public Safety	530,584	-	-	-	-	-	530,584
Public Works	632,254	12,000	-	-	-	-	644,254
Parks and Recreation	152,152	-	-	-	-	14,075	166,227
Economic Development	-	-	-	-	-	4,713	4,713
Capital Outlay	29,255	279,631	595,069	-	-	242,119	1,146,074
Debt Service:							
Principal	-	-	-	322,000	-	-	322,000
Interest and Other Charges	-	-	-	102,785	-	-	102,785
TOTAL EXPENDITURES	<u>1,942,600</u>	<u>291,631</u>	<u>595,069</u>	<u>424,785</u>	<u>-</u>	<u>313,440</u>	<u>3,567,525</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(507)	(71,169)	(355,810)	21,463	228,182	(141,139)	(318,980)
OTHER FINANCING SOURCES (USES)							
Transfers In	-	-	-	6,731	-	-	6,731
Transfers Out	-	-	-	-	-	(6,731)	(6,731)
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,731</u>	<u>-</u>	<u>(6,731)</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	(507)	(71,169)	(355,810)	28,194	228,182	(147,870)	(318,980)
FUND BALANCES - BEGINNING	<u>1,350,294</u>	<u>635,904</u>	<u>1,252,549</u>	<u>45,963</u>	<u>228,181</u>	<u>525,636</u>	<u>4,038,527</u>
FUND BALANCES - ENDING	<u>\$ 1,349,787</u>	<u>\$ 564,735</u>	<u>\$ 896,739</u>	<u>\$ 74,157</u>	<u>\$ 456,363</u>	<u>\$ 377,766</u>	<u>\$ 3,719,547</u>

**CITY OF SCANDIA, MINNESOTA
RECONCILIATION OF CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2022**

Net Change in Fund Balances - Total Governmental Funds \$ (318,980)

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

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

Capital Outlay Capitalized	\$ 903,393	
Depreciation Expense	<u>(691,843)</u>	
		211,550

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	322,000	
Amortization of Bond Premium	<u>3,728</u>	
		325,728

Net change in accrued interest on bonds and equipment certificates are not reported as expenses in the funds. 519

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	1,330	
Special Revenues	(2,079)	
Other Receivables	<u>(9,000)</u>	
		(9,749)

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		12,762
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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 Liability and Deferred Outflows/Inflows of Resources		<u>3,621</u>
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CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 225,451

**CITY OF SCANDIA, MINNESOTA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2022**

	Nonmajor		Totals
	Big Marine Sewer Fund	Uptown Sewer Fund	
ASSETS			
Current Assets			
Cash and Cash Equivalents	\$ 69,667	\$ 14,022	\$ 83,689
Assessments Receivable	4,356	-	4,356
Accounts Receivable	16,980	4,468	21,448
Total Current Assets	<u>91,003</u>	<u>18,490</u>	<u>109,493</u>
Noncurrent Assets			
Capital Assets Not Being Depreciated	21,088	-	21,088
Capital Assets Being Depreciated (Net)	737,455	161,124	898,579
Total Noncurrent Assets	<u>758,543</u>	<u>161,124</u>	<u>919,667</u>
TOTAL ASSETS	849,546	179,614	1,029,160
DEFERRED OUTFLOWS OF RESOURCES			
Pensions	6,051	2,367	8,418
LIABILITIES			
Current Liabilities			
Accounts Payable	6,521	623	7,144
Salaries Payable	951	406	1,357
Unearned Revenue	572	-	572
Total Current Liabilities	<u>8,044</u>	<u>1,029</u>	<u>9,073</u>
Noncurrent Liabilities			
Advances from Other Funds	-	13,188	13,188
Net Pension Liability	17,068	6,595	23,663
Total Noncurrent Liabilities	<u>17,068</u>	<u>19,783</u>	<u>36,851</u>
TOTAL LIABILITIES	25,112	20,812	45,924
DEFERRED INFLOWS OF RESOURCES			
Pensions	231	89	320
NET POSITION			
Net Investment in Capital Assets	758,543	161,124	919,667
Unrestricted	71,711	(44)	71,667
TOTAL NET POSITION	<u>\$ 830,254</u>	<u>\$ 161,080</u>	<u>\$ 991,334</u>

CITY OF SCANDIA, MINNESOTA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2022

	Big Marine Sewer Fund	Nonmajor Uptown Sewer Fund	Totals
OPERATING REVENUES			
Charges for Services	\$ 101,783	\$ 17,442	\$ 119,225
OPERATING EXPENSES			
Wages and Benefits	24,233	11,819	36,052
Materials and Supplies	1,226	581	1,807
Repairs and Maintenance	24,189	1,802	25,991
Professional Services	10,276	884	11,160
Utilities	(1,462)	697	(765)
Miscellaneous	8,426	855	9,281
Depreciation	50,174	4,877	55,051
TOTAL OPERATING EXPENSES	<u>117,062</u>	<u>21,515</u>	<u>138,577</u>
NET OPERATING INCOME (LOSS)	(15,279)	(4,073)	(19,352)
NONOPERATING INCOME			
Special Assessments	3,425	-	3,425
Intergovernmental	74	29	103
Connection Fees	8,000	-	8,000
Investment Income	342	55	397
TOTAL NONOPERATING INCOME	<u>11,841</u>	<u>84</u>	<u>11,925</u>
CHANGE IN NET POSITION	(3,438)	(3,989)	(7,427)
NET POSITION - BEGINNING OF YEAR	<u>833,692</u>	<u>165,069</u>	<u>998,761</u>
NET POSITION - END OF YEAR	<u>\$ 830,254</u>	<u>\$ 161,080</u>	<u>\$ 991,334</u>

**CITY OF SCANDIA, MINNESOTA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2022**

	Big Marine Sewer Fund	Nonmajor	Totals
		Uptown Sewer Fund	
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Received from Customers	\$ 97,607	\$ 17,074	\$ 114,681
Cash Paid to Suppliers	(40,871)	(5,541)	(46,412)
Cash Paid to Employees	(24,894)	(10,533)	(35,427)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>31,842</u>	<u>1,000</u>	<u>32,842</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Intergovernmental	74	29	103
Other Receipts from Customers	<u>8,000</u>	<u>-</u>	<u>8,000</u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>8,074</u>	<u>29</u>	<u>8,103</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Special Assessments	3,384	-	3,384
Purchases of Capital Assets	(63,640)	-	(63,640)
Payments on Interfund Advances	<u>-</u>	<u>(2,640)</u>	<u>(2,640)</u>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(60,256)</u>	<u>(2,640)</u>	<u>(62,896)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment Income	<u>342</u>	<u>55</u>	<u>397</u>
Net Change in Cash and Cash Equivalents	(19,998)	(1,556)	(21,554)
Cash and Cash Equivalents - Beginning of Year	<u>89,665</u>	<u>15,578</u>	<u>105,243</u>
Cash and Cash Equivalents - End of Year	<u>\$ 69,667</u>	<u>\$ 14,022</u>	<u>\$ 83,689</u>

CITY OF SCANDIA, MINNESOTA
STATEMENT OF CASH FLOWS (Continued)
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2022

	Nonmajor		Totals
	Big Marine Sewer Fund	Uptown Sewer Fund	
RECONCILIATION OF NET OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Net Operating Income (Loss)	\$ (15,279)	\$ (4,073)	\$ (19,352)
Adjustments to Reconcile Net Operating Income (Loss) to Net Cash Provided by Operating Activities:			
Depreciation Expense	50,174	4,877	55,051
Changes in Assets, Liabilities, and Deferrals:			
Accounts Receivable	(3,548)	(368)	(3,916)
Accounts Payable	1,784	(722)	1,062
Salaries Payable	106	151	257
Unearned Revenue	(628)	-	(628)
Net Pension Liability	7,066	3,935	11,001
Deferred Outflows or Resources - Pensions	1,220	(420)	800
Deferred Inflows or Resources - Pensions	(9,053)	(2,380)	(11,433)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 31,842</u>	<u>\$ 1,000</u>	<u>\$ 32,842</u>

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Scandia (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 describe 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. The City's blended component units consist of:

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 appointed by 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. 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, 2022

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 enterprise 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 enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The City reports the following major governmental funds:

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

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 *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 enterprise funds. Ad valorem taxes and special assessments are used for the payment of principal and interest on the City's judgment.

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-like 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 Fund* accounts for funds received by the City with a specific purpose.

The *Capital Projects Funds* account 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-like 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.

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.

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (Continued)

Measurement Focus

On the government-wide Statement of Net Position and the Statement of Activities, both governmental and business-like activities are presented using the “economic resources” measurement focus as defined in the second bullet point on the next page.

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, 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-like 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. 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.E. 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.

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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.

Prepays

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

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.

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, 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. Allowance for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable. No allowances are deemed necessary at year end.

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

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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.

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

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

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 fund Statements of Net Position in relation to the activity of the pension funds in which City employees participate.

**CITY OF SCANDIA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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 fund 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.

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.

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.

Fund Statements

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, 2022 consist of inventory, prepaid expenditures, and advances to other funds.

**CITY OF SCANDIA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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 35%-50% 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.

1.F. 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.

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 noncapital financing or investing activities.

**CITY OF SCANDIA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Expenditures/Expenses

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

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.

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. 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;

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

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

2.A. CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

- 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 public debt 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, 2022, the City’s deposits 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, 2022

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

2.B. CAPITAL ASSETS

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

	Balance at 01/01/22	Additions	Disposals	Transfers	Balance at 12/31/22
<i>Governmental Activities:</i>					
Capital Assets not Being Depreciated					
Land	\$ 487,735	\$ -	\$ -	\$ -	\$ 487,735
Construction In Progress	24,710	597,567	-	-	622,277
Total Capital Assets not Being Depreciated	512,445	597,567	-	-	1,110,012
Capital Assets Being Depreciated					
Buildings	2,394,353	-	-		2,394,353
Equipment	1,427,837	204,629	(17,956)	(491,914)	1,122,596
Vehicles	1,538,716	-	-	491,914	2,030,630
Infrastructure	17,105,152	43,849	-	-	17,149,001
Other Improvements	222,030	57,348	-	-	279,378
Total Capital Assets Being Depreciated	22,688,088	305,826	(17,956)	-	22,975,958
Less: Accumulated Depreciation					
Buildings	(1,216,179)	(54,047)	-	-	(1,270,226)
Equipment	(770,100)	(72,480)	17,956	385,976	(438,648)
Vehicles	(834,915)	(101,503)	-	(385,976)	(1,322,394)
Infrastructure	(5,441,876)	(453,296)	-	-	(5,895,172)
Other Improvements	(138,456)	(10,517)	-	-	(148,973)
Total Accumulated Depreciation	(8,401,526)	(691,843)	17,956	-	(9,075,413)
Total Capital Assets Being Depreciated, Net	14,286,562	(386,017)	-	-	13,900,545
Capital Assets, Net	<u>\$ 14,799,007</u>	<u>\$ 211,550</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15,010,557</u>

Depreciation is charged to governmental activities as follows:

General Government	\$ 28,200
Public Safety	92,752
Public Works	552,838
Parks and Recreation	18,053
Total Depreciation Expense	<u>\$ 691,843</u>

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

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

2.B. CAPITAL ASSETS (Continued)

	Balance at 01/01/22	Additions	Disposals	Transfers	Balance at 12/31/22
<i>Business-Type Activities:</i>					
Capital Assets not Being Depreciated					
Construction In Progress	\$ -	\$ 21,088	\$ -	\$ -	\$ 21,088
Capital Assets Being Depreciated					
Sewer Plant	1,500,000	-	-	-	1,500,000
Equipment	275,424	42,552	-	-	317,976
Uptown Sewer	243,827	-	-	-	243,827
Total Capital Assets Being Depreciated	2,019,251	42,552	-	-	2,061,803
Less: Accumulated Depreciation					
Sewer Plant	(960,000)	(30,000)	-	-	(990,000)
Equipment	(70,347)	(20,174)	-	-	(90,521)
Uptown Sewer	(77,826)	(4,877)	-	-	(82,703)
Total Accumulated Depreciation	(1,108,173)	(55,051)	-	-	(1,163,224)
Total Capital Assets Being Depreciated, Net	911,078	(12,499)	-	-	898,579
Capital Assets, Net	\$ 911,078	\$ 8,589	\$ -	\$ -	\$ 919,667

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, 2022 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	\$ 3,015,000

**CITY OF SCANDIA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2022**

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

2.C. NONCURRENT LIABILITIES (Continued)

Equipment Certificates

The City also occasionally issues certificates of indebtedness for the purpose of financing major equipment purchases. Such indebtedness is secured by the underlying assets that were obtained via the proceeds from the issuance. Equipment certificates outstanding at December 31, 2022 consist of the following:

Equipment Certificates						
Type of Debt	Issue Date	Annual Payment	Interest Rate(s)	Maturity Date	Original Amount	Remaining Amount
2013 Equipment Certificate	7/13	\$50,000 - \$65,000	0.80-3.10%	7/23	\$ 570,000	\$ 60,000

Changes in Noncurrent Liabilities

The following is a summary of changes in noncurrent liabilities, excluding net pension liability, for the year ended December 31, 2022:

Type of Debt	Balance 1/1/22	Additions	Deductions	Balance 12/31/22	Amounts Due Within One Year
<i>Governmental Activities:</i>					
Bonds	\$ 3,245,000	\$ -	\$ (230,000)	\$ 3,015,000	\$ 235,000
Unamortized Bond Premium	44,733	-	(3,728)	41,005	-
Equipment Certificates	152,000	-	(92,000)	60,000	60,000
Compensated Absences	38,757	27,122	(39,884)	25,995	25,995
Total	\$ 3,480,490	\$ 27,122	\$ (365,612)	\$ 3,142,000	\$ 320,995

Interest and other fiscal charges total \$98,538 in the Statement of Activities (included in Debt Service line). Interest and other fiscal charges total \$102,785 for the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds (included in the line Interest and Other Charges).

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.

**CITY OF SCANDIA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2022**

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

2.C. NONCURRENT LIABILITIES (Continued)

Annual Debt Service Requirements

At December 31, 2022, the estimated annual debt service requirements to maturity, including principal and interest, are as follows:

Years Ending December 31,	Governmental Activities		
	Principal	Interest	Total
2023	\$ 295,000	\$ 92,155	\$ 387,155
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
2028-2032	1,450,000	184,025	1,634,025
2033	315,000	9,844	324,844
Totals	<u>\$ 3,075,000</u>	<u>\$ 578,024</u>	<u>\$ 3,653,024</u>

2.D. INTERFUND TRANSACTIONS AND BALANCES

Operating transfers consist of the following for the year ended December 31, 2022:

Nonmajor Funds	Transfers	Transfers In
	Out	Debt Service
Blacktop Project	<u>\$ 6,731</u>	<u>\$ 6,731</u>

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	\$ 13,188	Sewer improvements
Capital Improvement	Park Capital Improvement	8,000	Lilleskogen Park improvements
Capital Improvement	General Fund	<u>21,000</u>	Community Center LED lighting improv.
Governmental Funds Advances To/From		<u>\$ 42,188</u>	
Governmental Fund Elimination		<u>(29,000)</u>	
Government-wide Internal Balances		<u>\$ 13,188</u>	

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 Park Capital Improvement Fund monies owed to the Capital Improvement Fund will be repaid as park dedication fees and donations are received. 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, 2022**

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

2.E. FUND EQUITY

At December 31, 2022, 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 - Prepaids and Inventory	\$ 16,618	\$ -	\$ -	\$ -	\$ -
Unassigned	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,333,169</u>
Total General Fund Balance	<u>\$ 16,618</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,333,169</u>
Capital Improvement Fund					
Nonspendable - Advances to Other Fund	\$ 42,188	\$ -	\$ -	\$ -	\$ -
Committed for Capital Improvements	<u>-</u>	<u>-</u>	<u>522,547</u>	<u>-</u>	<u>-</u>
Total Capital Improvement Fund	<u>\$ 42,188</u>	<u>\$ -</u>	<u>\$ 522,547</u>	<u>\$ -</u>	<u>\$ -</u>
Local Road Improvement Fund					
Assigned for Local Road Improvements	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 896,739</u>	<u>\$ -</u>
Debt Service Fund					
Restricted for Debt Service	<u>\$ -</u>	<u>\$ 74,157</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
COVID Relief Fund					
Restricted for COVID Relief	<u>\$ -</u>	<u>\$ 456,363</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Nonmajor Governmental Funds					
Committed for Economic Development	\$ -	\$ -	\$ 35,042	\$ -	\$ -
Committed for Park Improvements	-	-	130,797	-	-
Assigned for Cable TV	-	-	-	11,379	-
Assigned for Equipment Replacement	<u>-</u>	<u>-</u>	<u>-</u>	<u>200,548</u>	<u>-</u>
Total Nonmajor Governmental Funds Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 165,839</u>	<u>\$ 211,927</u>	<u>\$ -</u>

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

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 1.2 percent for each of the first 10 years of service and 1.7 percent for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7 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. For members retiring on January 1, 2024, or later, the increase will be delayed until normal retirement age (age 65 if hired prior to July 1, 1989, or age 66 for individuals hired on or after July 1, 1989). Members retiring under Rule of 90 are exempt from the delay to normal retirement.

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, 2022**

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.

Contributions

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

General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in fiscal year 2022 and the City was required to contribute 7.50 percent for Coordinated Plan members. The City’s contributions to the General Employees Fund for the year ended December 31, 2022, were \$35,278. 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 2022 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, 2022, were \$8,584. 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, 2022, the City reported a liability of \$506,882 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 \$14,663.

The net pension liability was measured as of June 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City’s proportionate share of the net pension liability was based on the City’s contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2021 through June 30, 2022, relative to the total employer contributions received from all of PERA’s participating employers. The City’s proportionate share was 0.0064 percent at the end of the measurement period and 0.0060 percent for the beginning of the period.

City’s proportionate share of the net pension liability:	\$506,882
State of Minnesota’s proportionate share of the net pension liability associated with the City	14,663
Total	\$521,545

For the year ended December 31, 2022, the City recognized pension expense of \$82,771 for its proportionate share of the General Employees Plan’s pension expense. In addition, the City recognized an additional \$2,191 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, 2022

NOTE 3 DEFINED BENEFIT PENSION PLANS - STATEWIDE (Continued)

At December 31, 2022, the City reported its proportionate share of the General Employees Plan’s deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 4,234	\$ 5,046
Changes in actuarial assumptions	107,764	1,804
Difference between projected and actual investment earnings	18,508	-
Changes in proportionate share	24,802	-
Contributions paid to PERA subsequent to the measurement date	18,387	-
Total Deferred Outflows/Inflows	\$ 173,695	\$ 6,850

The \$18,387 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, 2023.

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
2023	\$ 54,369
2024	\$ 56,097
2025	\$ (7,848)
2026	\$ 45,840

Police and Fire Fund Pension Costs

At December 31, 2022, the City reported a liability of \$169,713 for its proportionate share of the Police and Fire Fund’s net pension liability. The net pension liability was measured as of June 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City’s proportionate share of the net pension liability was based on the City’s contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2021 through June 30, 2022, relative to the total employer contributions received from all of PERA’s participating employers. The City’s 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, 2022. 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, 2021. 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.

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

NOTE 3 DEFINED BENEFIT PENSION PLANS - STATEWIDE (Continued)

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, 2022, the City recognized pension expense of \$33,060 for its proportionate share of the Police and Fire Plan's pension expense. The City recognized \$1,449 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, 2022 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.

City's proportionate share of the net pension liability:	\$169,713
State of Minnesota's proportionate share of the net pension liability associated with the City	<u>7,468</u>
Total	<u>\$177,181</u>

At December 31, 2022, 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	\$ 10,324	\$ -
Changes in actuarial assumptions	99,902	719
Difference between projected and actual investment earnings	4,304	-
Changes in proportionate share	30,877	16,697
Contributions paid to PERA subsequent to the measurement date	<u>4,326</u>	<u>-</u>
Total Deferred Outflows/Inflows	<u>\$ 149,733</u>	<u>\$ 17,416</u>

The \$4,326 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, 2023.

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

<u>Year ended December 31:</u>	<u>Pension Expense</u>
2023	\$ 28,791
2024	\$ 28,791
2025	\$ 25,481
2026	\$ 30,807
2027	\$ 14,121

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

NOTE 3 DEFINED BENEFIT PENSION PLANS - STATEWIDE (Continued)

Long-Term Expected Return on Investment

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Stocks	33.5%	5.10%
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, 2022 actuarial valuation was determined using an individual entry-age normal actuarial cost method. The long-term rate of return on pension plan investments used in the determination of the total liability is 6.50 percent. This assumption is based on a review of inflation and investments return assumptions from a number of national investment consulting firms. The review provided a range of return investment return rates deemed to be reasonable by the actuary. An investment return of 6.50 percent was deemed to be within that range of reasonableness for financial reporting purposes.

Inflation is assumed to be 2.25 percent for the General Employees Plan and Police and Fire Plan. Benefit increases after retirement are assumed to be 1.25 percent for the General Employees Plan. The Police and Fire Plan benefit increase is fixed at 1 percent per year and that increase was used in the valuation.

Salary growth assumptions in the General Employees Plan range in annual increments from 10.25 percent after one year of service to 3.0 percent after 27 years of service. In the Police and Fire Plan, salary growth assumptions range from 11.75 percent after one year of service to 3.0 percent after 24 years of service.

Mortality rates for the General Employees Plan are based on the Pub-2010 General Employee Mortality Table. Mortality rates for the Police and Fire Plan 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 2019. The assumption changes were adopted by the Board and became effective with the July 1, 2020 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.

The following changes in actuarial assumptions and plan provisions occurred in 2022:

General Employees Fund

Changes in Actuarial Assumptions:

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

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

NOTE 3 DEFINED BENEFIT PENSION PLANS - STATEWIDE (Continued)

Changes in Plan Provisions:

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

Police and Fire Fund

Changes in Actuarial Assumptions:

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

Changes in Plan Provisions:

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

Discount Rate

The discount rate used to measure the total pension liability in 2022 was 6.50 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Fund 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.

In the Police and Fire Fund, the fiduciary net position was projected to be available to make all projected future benefit payments of current plan members through June 30, 2060. Beginning in fiscal year ended June 30, 2061 for the Police and Fire Fund, projected benefit payments exceed the fund's projected fiduciary net position. Benefit payments projected after were discounted at the municipal bond rate of 3.69 percent (based on the weekly rate closest to but not later than the measurement date of the Fidelity 20-Year Municipal GO AA Index"). The resulting equivalent single discount rate of 5.40 percent for the Police and Fire Fund was determined to give approximately the same present value of projected benefits when applied to all years of projected benefits as the present value of projected benefits using 6.5 percent applied to all years of projected benefits through the point of asset depletion and 3.69 percent thereafter.

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	5.50%	\$	800,647	4.40%	\$	256,838
Current Discount Rate	6.50%	\$	506,882	5.40%	\$	169,713
1% Increase in Discount Rate	7.50%	\$	265,950	6.40%	\$	99,277

Pension Plan Fiduciary Net Position

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

**CITY OF SCANDIA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2022**

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 2022 were:

Contribution Amounts		Percentage of Covered Payroll		Required
<u>Employee</u>	<u>Employer</u>	<u>Employee</u>	<u>Employer</u>	<u>Rate</u>
\$726	\$726	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 24 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.

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 \$39,178 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.

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

NOTE 5 STATEWIDE VOLUNTEER FIREFIGHTER RETIREMENT PLAN (Continued)

Pension Costs

At December 31, 2022, the City of Scandia reported a net pension asset of \$254,964 for the Volunteer Firefighter Fund. The net pension asset was measured as of December 31, 2021. 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.

	<u>Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net Pension Liability (Asset)</u>
Beginning Balance 12/31/20	\$ 712,593	\$ 902,162	\$ (189,569)
Service Cost	31,256	-	31,256
Interest on Pension Liability	44,631	-	44,631
Actuarial Experience (Gains)/Losses	(14,462)	-	(14,462)
Projected Investment Earnings	-	54,130	(54,130)
Contributions (State)	-	39,178	(39,178)
Asset (Gain)/Loss	-	34,374	(34,374)
PERA Administrative Fee	-	(810)	810
SBI Investment Fee	-	(52)	52
Net Changes	<u>61,425</u>	<u>126,820</u>	<u>(65,395)</u>
Balance End of Year 12/31/21	<u>\$ 774,018</u>	<u>\$ 1,028,982</u>	<u>\$ (254,964)</u>

For the year ended December 31, 2022, the City recognized pension expense of negative \$71,249.

At December 31, 2022, the City of Scandia reported 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	\$ -	\$ 29,514
Difference between projected and actual investment earnings	-	<u>85,799</u>
Total Deferred Outflows/Inflows	<u>\$ -</u>	<u>\$ 115,313</u>

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

<u>Year ended December 31:</u>	<u>Pension Expense</u>
2023	\$ (34,493)
2024	\$ (44,048)
2025	\$ (27,005)
2026	\$ (9,767)

**CITY OF SCANDIA, MINNESOTA
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2022**

NOTE 5 STATEWIDE VOLUNTEER FIREFIGHTER RETIREMENT PLAN (Continued)

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:

	<u>1% Decrease in Discount Rate (5.0%)</u>	<u>Discount Rate (6.0%)</u>	<u>1% Increase in Discount Rate (7.0%)</u>
Net Pension Asset	\$ 239,385	\$ 254,964	\$ 269,945

Plan Investments

Investment Policy

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

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

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

**CITY OF SCANDIA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE 5 STATEWIDE VOLUNTEER FIREFIGHTER RETIREMENT PLAN (Continued)

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, 2021, 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, 2022**

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 2023 contract budget, expenditures anticipated under this agreement for 2023 are estimated at \$168,499.

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. NEW ACCOUNTING STANDARD

In May 2020, the Government Accounting Standards Board (GASB) issued Statement No. 96, Subscription-Based Information Technology Arrangements. GASB Statement No. 96 (GASB 96) increases the usefulness of governmental financial statements by requiring recognition of right-to-use assets and liabilities for subscription-based information technology arrangements. GASB 96 will be effective for the City's fiscal year ended December 31, 2023. The effect on net position may be significant.

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 2023 Street Improvement Project at an approximate cost of \$671,745. Additionally, the City approved a contract for a crack filling and sealcoating project in the amount of \$139,577.

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF SCANDIA, MINNESOTA
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2022**

	Budget Amounts- Original and Final	Actual Amounts Budgetary Basis	Variance with Budget Over (Under)
REVENUES			
Taxes			
Property Taxes	\$ 1,589,400	\$ 1,583,098	\$ (6,302)
Franchise Taxes	5,000	4,115	(885)
Gravel Tax	20,000	24,044	4,044
Total Taxes	<u>1,614,400</u>	<u>1,611,257</u>	<u>(3,143)</u>
Licenses and Permits	149,500	182,640	33,140
Intergovernmental Revenue			
State Revenue			
Market Value Credit	13,200	13,823	623
Police and Fire Aid	39,600	40,474	874
Other State Grants and Aids	6,400	2,390	(4,010)
County Revenue			
Other County Grants and Aids	9,000	13,188	4,188
Total Intergovernmental Revenue	<u>68,200</u>	<u>69,875</u>	<u>1,675</u>
Charges for Services			
General Government	8,000	4,389	(3,611)
Police and Fire Contracts	31,493	31,493	-
Streets and Highways	2,600	3,290	690
Parks and Recreation	6,200	14,211	8,011
Total Charges for Services	<u>48,293</u>	<u>53,383</u>	<u>5,090</u>
Fines and Forfeitures	7,000	6,027	(973)
Miscellaneous Revenue			
Investment Earnings	15,900	5,459	(10,441)
Contributions and Donations	1,500	4,841	3,341
Other Miscellaneous	6,600	8,611	2,011
Total Miscellaneous Revenue	<u>24,000</u>	<u>18,911</u>	<u>(5,089)</u>
TOTAL REVENUES	1,911,393	1,942,093	30,700
EXPENDITURES			
General Government			
Mayor and Council	23,000	19,576	(3,424)
Administration and Finance	216,600	256,119	39,519
Other General Government	299,220	322,660	23,440
Capital Outlay	4,000	4,244	244
Total General Government	<u>542,820</u>	<u>602,599</u>	<u>59,779</u>

**CITY OF SCANDIA, MINNESOTA
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2022**

	<u>Budget Amounts- Original and Final</u>	<u>Actual Amounts Budgetary Basis</u>	<u>Variance with Budget Over (Under)</u>
Public Safety			
Police			
Current	150,900	150,723	(177)
Fire			
Current	278,790	301,349	22,559
Capital Outlay	1,400	1,178	(222)
Other Public Safety			
Current	<u>59,000</u>	<u>78,512</u>	<u>19,512</u>
Total Public Safety	<u>490,090</u>	<u>531,762</u>	<u>41,672</u>
Public Works			
Street Maintenance and Storm Sewers	634,690	591,054	(43,636)
Snow and Ice Removal	28,900	23,135	(5,765)
Street Engineering	9,400	8,394	(1,006)
Street Lighting	7,200	9,671	2,471
Capital Outlay - Other	<u>3,300</u>	<u>4,099</u>	<u>799</u>
Total Public Works	<u>683,490</u>	<u>636,353</u>	<u>(47,137)</u>
Culture and Recreation			
Parks and Recreation			
Current	152,900	152,152	(748)
Capital Outlay	<u>16,000</u>	<u>19,734</u>	<u>3,734</u>
Total Culture and Recreation	<u>168,900</u>	<u>171,886</u>	<u>2,986</u>
TOTAL EXPENDITURES	<u>1,885,300</u>	<u>1,942,600</u>	<u>57,300</u>
NET CHANGE IN FUND BALANCE	<u>\$ 26,093</u>	(507)	<u>\$ (26,600)</u>
FUND BALANCE - BEGINNING		<u>1,350,294</u>	
FUND BALANCE - ENDING		<u>\$ 1,349,787</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>							
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>							
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>					
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>					
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>					
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,							
	2021	2020	2019	2018	2017	2016	2015	2014
Changes in Total Pension Liability (TPL)								
Balance at January 1st	\$ 712,593	\$ 659,574	\$ 490,428	\$ 545,327	\$ 617,019	\$ 654,741	\$ 636,294	\$ 629,967
Service Cost	31,256	29,799	31,774	25,342	28,912	24,777	23,343	22,874
Interest on the TPL	44,631	41,362	31,332	31,414	34,163	38,089	38,665	38,350
Actuarial Experience (Gains)/Losses	(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	-	-	-	(94,240)	(153,100)	(89,400)	(30,453)	(27,344)
Balance at December 31st	<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	\$ 902,162	\$ 752,345	\$ 604,335	\$ 687,094	\$ 723,513	\$ 735,277	\$ 730,400	\$ 658,422
Fire State Aid	32,376	30,706	27,954	26,919	26,278	26,738	27,129	24,368
Fire Supplemental Aid	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)	88,505	113,188	112,533	(23,964)	83,014	45,186	1,367	43,226
Total Additions	127,683	150,672	148,799	12,360	117,651	78,410	36,134	100,072
Benefit Payments	-	-	-	(94,240)	(153,100)	(89,400)	(30,453)	(27,344)
Administrative Expenses	(863)	(855)	(789)	(879)	(970)	(774)	(804)	(750)
Total Reductions	(863)	(855)	(789)	(95,119)	(154,070)	(90,174)	(31,257)	(28,094)
Balance at December 31st	<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>\$ (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)	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, 2022

NOTE 1 BUDGETARY COMPARISON SCHEDULE

Actual expenditures of the General Fund exceeded budgeted amounts by \$57,300. These excess expenditures were largely driven by employee compensation costs related to administration and public safety.

The City has not adopted a formal budget for the major special revenue COVID Relief Fund.

NOTE 2 PUBLIC EMPLOYEES RETIREMENT PLAN – GENERAL EMPLOYEES FUND

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.
- The assumed number of married male new retirees electing the 100 percent Joint & Survivor option changed from 35 percent to 45 percent. The assumed number of married female new retirees electing the 100 percent Joint & Survivor option changed from 15 percent to 30 percent. The corresponding number of married new retirees electing the Life annuity option was adjusted accordingly.

CITY OF SCANDIA, MINNESOTA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2022

NOTE 2 PUBLIC EMPLOYEES RETIREMENT PLAN – GENERAL EMPLOYEES FUND (Continued)

Changes in Plan Provisions

- Augmentation for current privatized members was reduced to 2.0 percent for the period July 1, 2020 through December 31, 2023 and 0.0 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.

Changes in Plan Provisions

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

CITY OF SCANDIA, MINNESOTA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2022

NOTE 2 PUBLIC EMPLOYEES RETIREMENT PLAN – GENERAL EMPLOYEES FUND (Continued)

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 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 3 PUBLIC EMPLOYEES RETIREMENT PLAN – POLICE AND FIRE FUND

2022 Changes

Changes in Actuarial Assumptions

- The mortality projection scale was changed from MP-2020 to MP-2021.
- The single discount rate changed from 6.5% to 5.4%.

Changes in Plan Provisions

- There have been no changes since the prior valuation.

CITY OF SCANDIA, MINNESOTA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2022

NOTE 3 PUBLIC EMPLOYEES RETIREMENT PLAN – POLICE AND FIRE Fund (Continued)

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 have been no changes since the prior valuation.

NOTE 4 STATEWIDE VOLUNTEER FIREFIGHTER RETIREMENT PLAN

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.

CITY OF SCANDIA, MINNESOTA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2022

NOTE 4 STATEWIDE VOLUNTEER FIREFIGHTER RETIREMENT PLAN (Continued)

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, 2022**

	2013 Equipment Certificates	2015 Equipment Certificates	2017 Equipment Certificates	2018A G.O. Street Bonds	Intrafund Activity	Total Debt Service
ASSETS						
Cash and Cash Equivalents	\$ 28,873	\$ -	\$ -	\$ 45,284	\$ -	\$ 74,157
FUND BALANCE						
Restricted	\$ 28,873	\$ -	\$ -	\$ 45,284	\$ -	\$ 74,157

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, 2022

	2013 Equipment Certificates	2015 Equipment Certificates	2017 Equipment Certificates	2018A G.O. Street Bonds	Intrafund Activity	Total Debt Service
REVENUES						
Taxes	\$ 67,000	\$ -	\$ 34,524	\$ 344,531	\$ -	\$ 446,055
Interest Income:						
Investments	48	-	-	145	-	193
TOTAL REVENUES	<u>67,048</u>	<u>-</u>	<u>34,524</u>	<u>344,676</u>	<u>-</u>	<u>446,248</u>
EXPENDITURES						
Debt Service:						
Principal	60,000	-	32,000	230,000	-	322,000
Interest and Other Charges	3,285	-	880	98,620	-	102,785
TOTAL EXPENDITURES	<u>63,285</u>	<u>-</u>	<u>32,880</u>	<u>328,620</u>	<u>-</u>	<u>424,785</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	3,763	-	1,644	16,056	-	21,463
OTHER FINANCING SOURCES (USES)						
Transfers In	-	-	-	24,869	(18,138)	6,731
Transfers Out	-	(15,951)	(2,187)	-	18,138	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>(15,951)</u>	<u>(2,187)</u>	<u>24,869</u>	<u>-</u>	<u>6,731</u>
NET CHANGE IN FUND BALANCE	3,763	(15,951)	(543)	40,925	-	28,194
FUND BALANCE - BEGINNING	<u>25,110</u>	<u>15,951</u>	<u>543</u>	<u>4,359</u>	<u>-</u>	<u>45,963</u>
FUND BALANCE - ENDING	<u>\$ 28,873</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 45,284</u>	<u>\$ -</u>	<u>\$ 74,157</u>

**CITY OF SCANDIA, MINNESOTA
COMBINING BALANCE SHEET
ALL NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2022**

	Special Revenue		Capital Project				Total Nonmajor Funds
	Economic Development		Gateway Trail	Park Capital	Equipment	Blacktop Project	
	Authority Fund	Cable TV Fund	Expansion Fund	Improvement Fund	Replacement Fund	Fund	
ASSETS							
Cash and Cash Equivalents	\$ 35,042	\$ 9,652	\$ -	\$ 138,797	\$ 200,548	\$ -	\$ 384,039
Accounts Receivable	-	2,006	-	-	-	-	2,006
TOTAL ASSETS	<u>\$ 35,042</u>	<u>\$ 11,658</u>	<u>\$ -</u>	<u>\$ 138,797</u>	<u>\$ 200,548</u>	<u>\$ -</u>	<u>\$ 386,045</u>
LIABILITIES							
Accounts Payable	\$ -	\$ 279	\$ -	\$ -	\$ -	\$ -	\$ 279
Advances from Other Funds	-	-	-	8,000	-	-	8,000
Total Liabilities	-	279	-	8,000	-	-	8,279
FUND BALANCES							
Committed	35,042	-	-	130,797	-	-	165,839
Assigned	-	11,379	-	-	200,548	-	211,927
Total Fund Balances	<u>35,042</u>	<u>11,379</u>	<u>-</u>	<u>130,797</u>	<u>200,548</u>	<u>-</u>	<u>377,766</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 35,042</u>	<u>\$ 11,658</u>	<u>\$ -</u>	<u>\$ 138,797</u>	<u>\$ 200,548</u>	<u>\$ -</u>	<u>\$ 386,045</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, 2022

	Special Revenue		Capital Project				Total Nonmajor Funds
	Economic Development		Gateway Trail	Park Capital	Equipment	Blacktop Project	
	Authority Fund	Cable TV Fund	Expansion Fund	Improvement Fund	Replacement Fund	Fund	
REVENUES							
Taxes	\$ 8,000	\$ -	\$ -	\$ 20,000	\$ 87,800	\$ -	\$ 115,800
Franchise Taxes	-	24,197	-	-	-	-	24,197
Special Assessments	-	-	-	-	-	6,731	6,731
Intergovernmental	-	-	-	10,125	-	-	10,125
Charges for Services	750	-	-	-	-	-	750
Interest Income	1,366	242	-	620	821	-	3,049
Miscellaneous	300	-	3,400	7,949	-	-	11,649
TOTAL REVENUES	10,416	24,439	3,400	38,694	88,621	6,731	172,301
EXPENDITURES							
Current:							
General Government	-	52,533	-	-	-	-	52,533
Parks and Recreation	-	-	3,575	10,500	-	-	14,075
Economic Development	4,713	-	-	-	-	-	4,713
Capital Outlay	-	-	-	37,613	204,506	-	242,119
TOTAL EXPENDITURES	4,713	52,533	3,575	48,113	204,506	-	313,440
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	5,703	(28,094)	(175)	(9,419)	(115,885)	6,731	(141,139)
OTHER FINANCING SOURCES (USES)							
Transfers Out	-	-	-	-	-	(6,731)	(6,731)
NET CHANGE IN FUND BALANCES	5,703	(28,094)	(175)	(9,419)	(115,885)	-	(147,870)
FUND BALANCES - BEGINNING	29,339	39,473	175	140,216	316,433	-	525,636
FUND BALANCES - ENDING	\$ 35,042	\$ 11,379	\$ -	\$ 130,797	\$ 200,548	\$ -	\$ 377,766

**CITY OF SCANDIA, MINNESOTA
SCHEDULE OF INDEBTEDNESS
FOR THE YEAR ENDED DECEMBER 31, 2022
(UNAUDITED)**

	Issue Dates	Interest Rates	Maturity Dates	Initial Authorized Issue	Outstanding Balance 01/01/22	Issued	Paid	Outstanding Balance 12/31/22	Principal Due Within One Year
GOVERNMENTAL INDEBTEDNESS									
	7/1/2013	0.80-3.10%	7/1/2023	\$ 570,000	\$ 120,000	\$ -	\$ 60,000	\$ 60,000	\$ 60,000
	8/1/2017	2.35-2.75%	8/1/2022	160,000	32,000	-	32,000	-	-
	5/15/2018	3.00-3.13%	12/15/2033	3,835,000	3,245,000	-	230,000	3,015,000	235,000
TOTAL INDEBTEDNESS				<u>\$ 4,565,000</u>	<u>\$ 3,397,000</u>	<u>\$ -</u>	<u>\$ 322,000</u>	<u>\$ 3,075,000</u>	<u>\$ 295,000</u>

OTHER REQUIRED REPORTS

**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**

INDEPENDENT AUDITOR'S REPORT

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, as of and for the year ended December 31, 2022, 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 May 16, 2023.

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 significant deficiencies.

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

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 following deficiency described in the accompanying *Schedule of Findings and Responses* to be a significant deficiency: 2019-002.

Report on Compliance and Other Matters

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

Report on Minnesota Legal Compliance

In connection with our audit, we noted that the City of Scandia, Minnesota failed to comply with the provisions of the miscellaneous provisions section of the *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minn. Statute Section 6.65, insofar as they relate to accounting matters as described in the *Schedule of Findings and Responses* as item 2022-001. Also, in connection with our audit, nothing came to our attention that caused us to believe that the City of Scandia, Minnesota failed to comply with the provisions of the depositories of public funds and public investments, conflicts of interest, contracting and bidding, public indebtedness, claims and disbursements, and tax increment financing sections of the *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minn. Statute Section 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's Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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

May 16, 2023

**CITY OF SCANDIA, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2022**

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, 2022**

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.

LEGAL COMPLIANCE FINDINGS

Finding 2022-001 Open Meeting Law

Condition: The City failed to electronically record a closed Council meeting.

Criteria: Under Minnesota Statute 13D.05, subdivision 1d, all closed meetings, except those closed as permitted by the attorney-client privilege, must be electronically recorded at the expense of the public body. Unless otherwise provided by law, the recordings must be preserved for at least three years after the date of the meeting.

Cause: The City failed to electronically record a closed Council meeting for discussions regarding personnel performance reviews.

Effect: The failure to record this Council meeting resulted in the City's noncompliance with Minnesota Statutes.

Recommendation: We recommend management record all future closed meetings and retain those recordings for a minimum of three years.

*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, 2022**

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, 2022**

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.

LEGAL COMPLIANCE FINDINGS

Finding 2022-001 Open Meeting Law

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 electronically record all future closed meetings, except those subject to attorney-client privilege.
3. Official Responsible
Kyle Morell, City Administrator, is the official responsible for ensuring corrective action.
4. Planned Completion Date
December 31, 2023.
5. Plan to Monitor Completion
The City Council will be monitoring this Corrective Action Plan.