

# PRELIMINARY OFFICIAL STATEMENT DATED APRIL 22, 2024

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

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

**New Issue**

**Rating Application Made: S&P Global Ratings**

## CITY OF SCANDIA, MINNESOTA (Washington County)

### \$4,135,000\* GENERAL OBLIGATION BONDS, SERIES 2024A

**PROPOSAL OPENING:** May 1, 2024, 10:30 A.M., C.T.

**CONSIDERATION:** May 1, 2024, 6:30 P.M., C.T.

**PURPOSE/AUTHORITY/SECURITY:** The \$4,135,000\* General Obligation Bonds, Series 2024A (the "Bonds") are being issued pursuant to Minnesota Statutes, Sections 469.1814 through 469.1815, as amended, and 475.58, subd. 3b, and Chapter 475, as amended, by the City of Scandia, Minnesota (the "City"), to finance the 2024 Street Improvement Project described in the City's Five-Year Street Reconstruction & Overlay Plan, dated March 19, 2024 and the 2024 Crack Fill & Seal Coat Project. The Bonds will be general obligations of the City for which its full faith and credit and taxing powers are pledged. Delivery is subject to receipt of an approving legal opinion of Taft Stettinius & Hollister LLP, Minneapolis, Minnesota.

**DATE OF BONDS:** May 22, 2024

**MATURITY:** February 1 as follows:

<u>Year</u>	<u>Amount*</u>	<u>Year</u>	<u>Amount*</u>	<u>Year</u>	<u>Amount*</u>
2026	\$220,000	2031	\$255,000	2036	\$295,000
2027	225,000	2032	260,000	2037	310,000
2028	230,000	2033	275,000	2038	320,000
2029	245,000	2034	280,000	2039	335,000
2030	250,000	2035	290,000	2040	345,000

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

**TERM BONDS:** See "Term Bond Option" herein.

**INTEREST:** February 1, 2025 and semiannually thereafter.

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

**MINIMUM PROPOSAL:** \$4,085,380.

**GOOD FAITH DEPOSIT:** A good faith deposit in the amount of \$82,700 shall be made by the winning bidder by wire transfer of funds.

**PAYING AGENT:** Bond Trust Services Corporation.

**BOND COUNSEL:** Taft Stettinius & Hollister LLP.

**MUNICIPAL ADVISOR:** Ehlers and Associates, Inc.

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

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

## REPRESENTATIONS

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

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

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

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

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

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

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

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

## CLOSING CERTIFICATES

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

# TABLE OF CONTENTS

<p>INTRODUCTORY STATEMENT..... 1</p> <p>THE BONDS ..... 1</p> <p style="padding-left: 20px;">GENERAL ..... 1</p> <p style="padding-left: 20px;">OPTIONAL REDEMPTION ..... 2</p> <p style="padding-left: 20px;">AUTHORITY; PURPOSE ..... 2</p> <p style="padding-left: 20px;">ESTIMATED SOURCES AND USES ..... 2</p> <p style="padding-left: 20px;">SECURITY ..... 3</p> <p style="padding-left: 20px;">RATING ..... 4</p> <p style="padding-left: 20px;">CONTINUING DISCLOSURE..... 4</p> <p style="padding-left: 20px;">LEGAL OPINION ..... 5</p> <p style="padding-left: 20px;">STATEMENT REGARDING BOND COUNSEL PARTICIPATION..... 5</p> <p style="padding-left: 20px;">TAX EXEMPTION..... 5</p> <p style="padding-left: 20px;">QUALIFIED TAX-EXEMPT OBLIGATIONS ..... 7</p> <p style="padding-left: 20px;">MUNICIPAL ADVISOR ..... 7</p> <p style="padding-left: 20px;">MUNICIPAL ADVISOR AFFILIATED COMPANIES..... 7</p> <p style="padding-left: 20px;">INDEPENDENT AUDITORS ..... 7</p> <p style="padding-left: 20px;">RISK FACTORS..... 8</p> <p>VALUATIONS ..... 10</p> <p style="padding-left: 20px;">OVERVIEW ..... 10</p> <p style="padding-left: 20px;">CURRENT PROPERTY VALUATIONS..... 11</p> <p style="padding-left: 20px;">2023/24 NET TAX CAPACITY BY CLASSIFICATION .. 12</p> <p style="padding-left: 20px;">TREND OF VALUATIONS..... 12</p> <p style="padding-left: 20px;">LARGEST TAXPAYERS..... 13</p> <p>DEBT ..... 13</p> <p style="padding-left: 20px;">DIRECT DEBT ..... 13</p> <p style="padding-left: 20px;">DEBT PAYMENT HISTORY ..... 13</p> <p style="padding-left: 20px;">FUTURE FINANCING..... 14</p> <p style="padding-left: 20px;">DEBT LIMIT ..... 14</p> <p style="padding-left: 20px;">SCHEDULES OF BONDED INDEBTEDNESS ..... 15</p> <p style="padding-left: 20px;">OVERLAPPING DEBT ..... 17</p> <p style="padding-left: 20px;">DEBT RATIOS..... 18</p>	<p>TAX LEVIES, COLLECTIONS AND RATES ..... 18</p> <p style="padding-left: 20px;">TAX LEVIES AND COLLECTIONS ..... 18</p> <p style="padding-left: 20px;">TAX CAPACITY RATES ..... 19</p> <p>THE ISSUER ..... 19</p> <p style="padding-left: 20px;">CITY GOVERNMENT..... 19</p> <p style="padding-left: 20px;">EMPLOYEES; PENSIONS; UNIONS ..... 20</p> <p style="padding-left: 20px;">POST EMPLOYMENT BENEFITS ..... 20</p> <p style="padding-left: 20px;">LITIGATION ..... 20</p> <p style="padding-left: 20px;">MUNICIPAL BANKRUPTCY..... 20</p> <p style="padding-left: 20px;">FUNDS ON HAND..... 21</p> <p style="padding-left: 20px;">ENTERPRISE FUNDS..... 21</p> <p style="padding-left: 20px;">SUMMARY GENERAL FUND INFORMATION..... 22</p> <p>GENERAL INFORMATION ..... 23</p> <p style="padding-left: 20px;">LOCATION ..... 23</p> <p style="padding-left: 20px;">LARGER EMPLOYERS ..... 23</p> <p style="padding-left: 20px;">BUILDING PERMITS ..... 23</p> <p style="padding-left: 20px;">U.S. CENSUS DATA ..... 24</p> <p style="padding-left: 20px;">EMPLOYMENT/UNEMPLOYMENT DATA..... 24</p> <p>FINANCIAL STATEMENTS..... A-1</p> <p>FORM OF LEGAL OPINION ..... B-1</p> <p>BOOK-ENTRY-ONLY SYSTEM ..... C-1</p> <p>FORM OF CONTINUING DISCLOSURE UNDERTAKING. . D-1</p> <p>TERMS OF PROPOSAL ..... E-1</p> <p>PROPOSAL FORM</p>
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## **CITY OF SCANDIA CITY COUNCIL**

		<u>Term Expires</u>
Christine Maefsky	Mayor	January 2026
Heather Benson	Council Member	January 2026
Jerry Cusick	Council Member	January 2028
Steve Kronmiller	Council Member	January 2026
Michael Lubke	Council Member	January 2028

## **ADMINISTRATION**

Kyle Morell, City Administrator

Colleen Firkus, Treasurer

## **PROFESSIONAL SERVICES**

Eckberg Lammers, P.C., City Attorney, Stillwater, Minnesota

Taft Stettinius & Hollister LLP, Bond Counsel, Minneapolis, Minnesota

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

# INTRODUCTORY STATEMENT

This Preliminary Official Statement contains certain information regarding the City of Scandia, Minnesota (the "City") and the issuance of its \$4,135,000\* General Obligation Bonds, Series 2024A (the "Bonds"). Any descriptions or summaries of the Bonds, statutes, or documents included herein are not intended to be complete and are qualified in their entirety by reference to such statutes and documents and the form of the Bonds to be included in the resolution authorizing the issuance and sale of the Bonds ("Award Resolution") to be adopted by the City Council on May 1, 2024.

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

## THE BONDS

### GENERAL

The Bonds will be issued in fully registered form as to both principal and interest in denominations of \$5,000 each or any integral multiple thereof, and will be dated, as originally issued, as of May 22, 2024. The Bonds will mature on February 1 in the years and amounts set forth on the cover of this Preliminary Official Statement. Interest will be payable on February 1 and August 1 of each year, commencing February 1, 2025, to the registered owners of the Bonds appearing of record in the bond register as of the close of business on the 15th day (whether or not a business day) of the immediately preceding month. Interest will be computed upon the basis of a 360-day year of twelve 30-day months and will be rounded pursuant to rules of the Municipal Securities Rulemaking Board ("MSRB"). **The rate for any maturity may not be more than 1.00% less than the rate for any preceding maturity. (For example, if a rate of 4.50% is proposed for the 2026 maturity, then the lowest rate that may be proposed for any later maturity is 3.50%.)** All Bonds of the same maturity must bear interest from the date of issue until paid at a single, uniform rate. Each rate must be expressed in an integral multiple of 5/100 or 1/8 of 1%.

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

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

\*Preliminary, subject to change.

**OPTIONAL REDEMPTION**

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

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

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

**AUTHORITY; PURPOSE**

The Bonds are being issued pursuant to Minnesota Statutes, Sections 469.1814 through 469.1815, as amended, and 475.58, subd. 3b, and Chapter 475, as amended, by the City, to finance the 2024 Street Improvement Project described in the City's Five-Year Street Reconstruction & Overlay Plan, dated March 19, 2024 (the "Street Reconstruction Portion") and the 2024 Crack Fill & Seal Coat Project (the "Tax Abatement Portion").

For the Tax Abatement Portion of the Bonds, per Minnesota Statutes, Chapter 469, in any year, the total amount of property taxes abated by a political subdivision under this section may not exceed (i) ten percent of the net tax capacity of the political subdivision for the taxes payable year to which the abatement applies, or (ii) \$200,000, whichever is greater.

**ESTIMATED SOURCES AND USES\***

Sources	Street Reconstruction Portion	Tax Abatement Portion	Total Bond Issue
Par Amount of Bonds	\$3,480,000	\$655,000	\$4,135,000
<b>Total Sources</b>	<b>\$3,480,000</b>	<b>\$655,000</b>	<b>\$4,135,000</b>
Uses			
Total Underwriter's Discount (1.200%)	\$41,760	\$7,860	\$49,620
Costs of Issuance	56,573	10,177	66,750
Capitalized Interest	79,153	14,907	94,060
Deposit to Construction Fund	3,300,000	620,000	3,920,000
Rounding Amount	<u>2,515</u>	<u>2,055</u>	<u>4,570</u>
<b>Total Uses</b>	<b>\$3,480,000</b>	<b>\$655,000</b>	<b>\$4,135,000</b>

\*Preliminary, subject to change.

**Breakdown of Principal Payments\*:**

<b>Payment Date</b>	<b>Street Reconstruction Portion</b>	<b>Tax Abatement Portion</b>	<b>Total Bond Issue</b>
2/01/2026	\$185,000	\$35,000	\$220,000
2/01/2027	190,000	35,000	225,000
2/01/2028	195,000	35,000	230,000
2/01/2029	205,000	40,000	245,000
2/01/2030	210,000	40,000	250,000
2/01/2031	215,000	40,000	255,000
2/01/2032	220,000	40,000	260,000
2/01/2033	230,000	45,000	275,000
2/01/2034	235,000	45,000	280,000
2/01/2035	245,000	45,000	290,000
2/01/2036	250,000	45,000	295,000
2/01/2037	260,000	50,000	310,000
2/01/2038	270,000	50,000	320,000
2/01/2039	280,000	55,000	335,000
2/01/2040	<u>290,000</u>	<u>55,000</u>	<u>345,000</u>
<b>Total</b>	<b>\$3,480,000</b>	<b>\$655,000</b>	<b>\$4,135,000</b>

\*Preliminary, subject to change.

**SECURITY**

The Bonds will be general obligations of the City for which its full faith and credit and taxing powers are pledged without limitation as to rate or amount.

The City anticipates that the debt service on the Street Reconstruction Portion of the Bonds will be paid from ad valorem property taxes. In accordance with Minnesota Statutes, the City will levy each year an amount not less than 105% of the debt service requirements on the Street Reconstruction Portion of the Bonds. In the event funds on hand for payment of principal and interest are at any time insufficient, the City is required to levy an additional ad valorem tax upon all taxable properties within its boundaries without limit as to rate or amount to make up any deficiency.

The City anticipates that the debt service on the Tax Abatement Portion of the Bonds will be paid from a combination of abatements of the City's portion of taxes from specific parcels up to an amount of the aggregate sum of abatements equal to the principal amount of the Tax Abatement Portion of the Bonds and from ad valorem property taxes. In accordance with Minnesota Statutes, receipt of tax abatement revenues and ad valorem property taxes will be sufficient to provide not less than 105% of principal and interest on the Tax Abatement Portion of the Bonds.

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

## **RATING**

General obligation debt of the City, with the exception of any outstanding credit enhanced issues, is currently rated "AA+" by S&P Global Ratings ("S&P").

The City has requested an underlying rating on the Bonds from S&P, and bidders will be notified as to the assigned rating prior to the sale. Such rating, if any, reflects only the views of such organization and explanations of the significance of such rating may be obtained from S&P.

Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by such rating agency, if in the judgment of such rating agency circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

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

## **CONTINUING DISCLOSURE**

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

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

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

Prior continuing disclosure undertakings entered into by the City included language stating that an Annual Report including the City's audited financial statements and operating data would be filed "as soon as available." Although the City did not provide financial statements "as soon as available", the Annual Reports were timely filed within the required twelve (12) month timeframe as provided for in each undertaking. Except to the extent that the preceding is deemed to be material, the City believes it has not failed to comply in the previous five years in all material respects with its prior undertakings under the Rule. The City has reviewed its continuing disclosure responsibilities along with any changes to the Rule, to ensure compliance.



## **LEGAL OPINION**

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

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

## **STATEMENT REGARDING BOND COUNSEL PARTICIPATION**

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

## **TAX EXEMPTION**

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

## **Other Federal and State Tax Considerations**

### *Other Tax Considerations*

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

### *Original Issue Discount*

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

### *Original Issue Premium*

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

### *Proposed Changes in Federal and State Tax Law*

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

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

## **QUALIFIED TAX-EXEMPT OBLIGATIONS**

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

## **MUNICIPAL ADVISOR**

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

## **MUNICIPAL ADVISOR AFFILIATED COMPANIES**

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

## **INDEPENDENT AUDITORS**

The basic financial statements of the City for the fiscal year ended December 31, 2023 have been audited by Schlenner Wenner & Co., St. Cloud, Minnesota, independent auditors (the "Auditor"). The report of the Auditor, together with the basic financial statements, component units financial statements, and notes to the financial statements are attached hereto as "APPENDIX A – FINANCIAL STATEMENTS". The Auditor has not been engaged to perform and has not performed, since the date of its report included herein, any procedures on the financial statements addressed in that report. The Auditor also has not performed any procedures relating to this Preliminary Official Statement.

## RISK FACTORS

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

**Taxes:** The Bonds will be general obligations of the City, the ultimate payment of which rests in the City's ability to levy and collect sufficient taxes to pay debt service should other revenue (tax abatement revenues) be insufficient. In the event of delayed billing, collection or distribution of property taxes, sufficient funds may not be available to the City in time to pay debt service when due.

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

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

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

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

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

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

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

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

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

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

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

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

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

# VALUATIONS

## OVERVIEW

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

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

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

Type of Property	2021/22	2022/23	2023/24
Residential homestead <sup>1</sup>	First \$500,000 - 1.00% Over \$500,000 - 1.25%	First \$500,000 - 1.00% Over \$500,000 - 1.25%	First \$500,000 - 1.00% Over \$500,000 - 1.25%
Agricultural homestead <sup>1</sup>	First \$500,000 HGA - 1.00% Over \$500,000 HGA - 1.25% First \$1,900,000 - 0.50% <sup>2</sup> Over \$1,900,000 - 1.00% <sup>2</sup>	First \$500,000 HGA - 1.00% Over \$500,000 HGA - 1.25% First \$1,890,000 - 0.50% <sup>2</sup> Over \$1,890,000 - 1.00% <sup>2</sup>	First \$500,000 HGA - 1.00% Over \$500,000 HGA - 1.25% First \$2,150,000 - 0.50% <sup>2</sup> Over \$2,150,000 - 1.00% <sup>2</sup>
Agricultural non-homestead	Land - 1.00% <sup>2</sup>	Land - 1.00% <sup>2</sup>	Land - 1.00% <sup>2</sup>
Seasonal recreational residential	First \$500,000 - 1.00% <sup>3</sup> Over \$500,000 - 1.25% <sup>3</sup>	First \$500,000 - 1.00% <sup>3</sup> Over \$500,000 - 1.25% <sup>3</sup>	First \$500,000 - 1.00% <sup>3</sup> Over \$500,000 - 1.25% <sup>3</sup>
Residential non-homestead:	1 unit - 1st \$500,000 - 1.00% Over \$500,000 - 1.25% 2-3 units - 1.25% 4 or more - 1.25% Small City <sup>4</sup> - 1.25% Affordable Rental: First \$174,000 - .75% Over \$174,000 - .25%	1 unit - 1st \$500,000 - 1.00% Over \$500,000 - 1.25% 2-3 units - 1.25% 4 or more - 1.25% Small City <sup>4</sup> - 1.25% Affordable Rental: First \$100,000 - .75% Over \$100,000 - .25%	1 unit - 1st \$500,000 - 1.00% Over \$500,000 - 1.25% 2-3 units - 1.25% 4 or more - 1.25% Small City <sup>4</sup> - 1.25% Affordable Rental: First \$100,000 - .75% Over \$100,000 - .25%
Industrial/Commercial/Utility <sup>5</sup>	First \$150,000 - 1.50% Over \$150,000 - 2.00%	First \$150,000 - 1.50% Over \$150,000 - 2.00%	First \$150,000 - 1.50% Over \$150,000 - 2.00%

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

<sup>2</sup> Applies to land and buildings. Exempt from referendum market value tax.

<sup>3</sup> Exempt from referendum market value tax.

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

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

## CURRENT PROPERTY VALUATIONS

<b>2022/23 Economic Market Value<sup>1</sup></b>	<u><u>\$1,078,757,159<sup>2</sup></u></u>
<b>2023/24 Assessor's Estimated Market Value</b>	
Real Estate	\$1,072,961,900
Personal Property	<u>6,858,500</u>
Total Valuation	<u><u>\$1,079,820,400</u></u>
<b>2023/24 Net Tax Capacity</b>	
Real Estate	\$10,921,888
Personal Property	<u>135,670</u>
Net Tax Capacity	\$11,057,558
Less:	
Fiscal Disparities Contribution <sup>3</sup>	(238,986)
Power Line Adjustment <sup>4</sup>	<u>(156)</u>
Taxable Net Tax Capacity	\$10,818,416
Plus: Fiscal Disparities Distribution <sup>3</sup>	<u>407,632</u>
Adjusted Taxable Net Tax Capacity	<u><u>\$11,226,048</u></u>

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<sup>1</sup> Most recent value available from the Minnesota Department of Revenue.

<sup>2</sup> According to the Minnesota Department of Revenue, the 2022/23 Assessor's Estimated Market Value (the "AEMV") for the City was about 95.05% of the actual selling prices of property sold in the City. The sales ratio was calculated by comparing the selling prices with the AEMV. Dividing the AEMV of real estate by the sales ratio and adding the AEMV of personal property and utility, railroads and minerals, if any, results in a 2022/23 Economic Market Value ("EMV") for the City of \$1,078,757,159.

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

<sup>4</sup> Ten percent of the net tax capacity of certain high voltage transmission lines is removed when setting local tax rates. However, taxes are paid on the full value of these lines. The taxes attributable to 10% of value of these lines are used to fund a power line credit. Certain property owners receive a credit when the high voltage transmission line runs over their property.

## 2023/24 NET TAX CAPACITY BY CLASSIFICATION

	<b>2023/24 Net Tax Capacity</b>	<b>Percent of Total Net Tax Capacity</b>
Residential homestead	\$7,401,055	66.93%
Agricultural	910,985	8.24%
Commercial/industrial	395,204	3.57%
Public utility	5,178	0.05%
Railroad operating property	124,252	1.12%
Non-homestead residential	1,602,770	14.49%
Commercial & residential seasonal/rec.	482,444	4.36%
Personal property	<u>135,670</u>	<u>1.23%</u>
 Total	 <u><u>\$11,057,558</u></u>	 <u><u>100.00%</u></u>

## TREND OF VALUATIONS

Levy Year	Assessor's Estimated Market Value	Assessor's Taxable Market Value	Net Tax Capacity <sup>1</sup>	Adjusted Taxable Net Tax Capacity <sup>2</sup>	Percent Increase/Decrease in Estimated Market Value
2019/20	\$759,307,800	\$725,592,600	\$7,460,384	\$7,710,339	18.26%
2020/21	796,995,400	763,808,700	7,911,011	8,139,655	4.96%
2021/22	814,667,100	782,916,800	8,114,715	8,336,001	2.22%
2022/23	1,020,437,400	983,714,400	10,343,350	10,528,159	25.26%
2023/24	1,079,820,400	1,044,884,000	11,057,558	11,226,048	5.82%

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<sup>1</sup> Net Tax Capacity is before fiscal disparities adjustments and includes power line values.

<sup>2</sup> Adjusted Taxable Net Tax Capacity is after fiscal disparities adjustments and does not include power line values.



## LARGEST TAXPAYERS

Taxpayer	Type of Property	2023/24 Net Tax Capacity	Percent of City's Total Net Tax Capacity
Soo Line Railroad Company	Railroad	\$124,252	1.12%
Xcel Energy	Utility	83,444	0.75%
Tiller Corp	Commercial/Industrial	79,432	0.72%
18881 Keystone Ave N, LLC	Residential	55,163	0.50%
Individual	Residential	44,880	0.41%
Individual	Residential	43,499	0.39%
Individual	Residential	38,682	0.35%
Individual	Commercial/Industrial	37,546	0.34%
Minnesota Energy Resources Corp.	Utility	28,714	0.26%
Northern National Gas Company	Utility	24,240	0.22%
Total		\$559,852	5.06%

City's Total 2023/24 Net Tax Capacity \$11,057,558

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

## DEBT

### DIRECT DEBT<sup>1</sup>

#### General Obligation Debt (see schedules following)

Total G.O. debt secured by tax abatement revenues (includes the Tax Abatement Portion of the Bonds)*	\$655,000
Total G.O. debt secured by taxes (includes the Street Reconstruction Portion of the Bonds)*	6,260,000
Total General Obligation Debt*	<u>\$6,915,000</u>

\*Preliminary, subject to change.

### DEBT PAYMENT HISTORY

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

<sup>1</sup> Outstanding debt is as of the dated date of the Bonds.

**FUTURE FINANCING**

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

**DEBT LIMIT**

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

2023/24 Assessor's Estimated Market Value	\$1,079,820,400
Multiply by 3%	<u>0.03</u>
Statutory Debt Limit	\$32,394,612
Less: Long-Term Debt Outstanding Being Paid Solely from Taxes (includes the Street Reconstruction Portion of the Bonds)*	<u>(6,260,000)</u>
Unused Debt Limit*	<u><u>\$26,134,612</u></u>

\*Preliminary, subject to change.

City of Scandia, Minnesota  
Schedule of Bonded Indebtedness  
General Obligation Debt Secured by Tax Abatement Revenues  
(As of 05/22/2024)

Tax Abatement Bonds 1) Series 2024A								
Dated Amount	05/22/2024 \$655,000*							
Maturity	02/01							
Calendar Year Ending	Principal	Estimated Interest	Total Principal	Total Interest	Total P & I	Principal Outstanding	% Paid	Calendar Year Ending
2025	0	25,683	0	25,683	25,683	655,000	.00%	2025
2026	35,000	20,993	35,000	20,993	55,993	620,000	5.34%	2026
2027	35,000	19,881	35,000	19,881	54,881	585,000	10.69%	2027
2028	35,000	18,788	35,000	18,788	53,788	550,000	16.03%	2028
2029	40,000	17,635	40,000	17,635	57,635	510,000	22.14%	2029
2030	40,000	16,415	40,000	16,415	56,415	470,000	28.24%	2030
2031	40,000	15,195	40,000	15,195	55,195	430,000	34.35%	2031
2032	40,000	13,975	40,000	13,975	53,975	390,000	40.46%	2032
2033	45,000	12,656	45,000	12,656	57,656	345,000	47.33%	2033
2034	45,000	11,239	45,000	11,239	56,239	300,000	54.20%	2034
2035	45,000	9,833	45,000	9,833	54,833	255,000	61.07%	2035
2036	45,000	8,393	45,000	8,393	53,393	210,000	67.94%	2036
2037	50,000	6,800	50,000	6,800	56,800	160,000	75.57%	2037
2038	50,000	5,038	50,000	5,038	55,038	110,000	83.21%	2038
2039	55,000	3,094	55,000	3,094	58,094	55,000	91.60%	2039
2040	55,000	1,031	55,000	1,031	56,031	0	100.00%	2040
	655,000	206,647	655,000	206,647	861,647			

\* Preliminary, subject to change.

1) This represents the \$655,000 Tax Abatement portion of the \$4,135,000 General Obligation Bonds, Series 2024A.

**City of Scandia, Minnesota**  
**Schedule of Bonded Indebtedness**  
**General Obligation Debt Secured by Taxes**  
**(As of 05/22/2024)**

	Street Reconstruction Bonds Series 2018A		Street Reconstruction Bonds 1) Series 2024A							
Dated Amount	06/15/2018 \$3,835,000		05/22/2024 \$3,480,000*							
Maturity	12/15		02/01							
Calendar Year Ending	Principal	Interest	Principal	Estimated Interest	Total Principal	Total Interest	Total P & I	Principal Outstanding	% Paid	Calendar Year Ending
2024	245,000	84,175	0	0	245,000	84,175	329,175	6,015,000	3.91%	2024
2025	250,000	76,825	0	136,371	250,000	213,196	463,196	5,765,000	7.91%	2025
2026	255,000	69,325	185,000	111,478	440,000	180,803	620,803	5,325,000	14.94%	2026
2027	265,000	61,675	190,000	105,525	455,000	167,200	622,200	4,870,000	22.20%	2027
2028	275,000	53,725	195,000	99,510	470,000	153,235	623,235	4,400,000	29.71%	2028
2029	280,000	45,475	205,000	93,361	485,000	138,836	623,836	3,915,000	37.46%	2029
2030	290,000	37,075	210,000	87,033	500,000	124,108	624,108	3,415,000	45.45%	2030
2031	300,000	28,375	215,000	80,551	515,000	108,926	623,926	2,900,000	53.67%	2031
2032	305,000	19,375	220,000	73,918	525,000	93,293	618,293	2,375,000	62.06%	2032
2033	315,000	9,844	230,000	66,940	545,000	76,784	621,784	1,830,000	70.77%	2033
2034			235,000	59,616	235,000	59,616	294,616	1,595,000	74.52%	2034
2035			245,000	52,118	245,000	52,118	297,118	1,350,000	78.43%	2035
2036			250,000	44,195	250,000	44,195	294,195	1,100,000	82.43%	2036
2037			260,000	35,650	260,000	35,650	295,650	840,000	86.58%	2037
2038			270,000	26,303	270,000	26,303	296,303	570,000	90.89%	2038
2039			280,000	16,125	280,000	16,125	296,125	290,000	95.37%	2039
2040			290,000	5,438	290,000	5,438	295,438	0	100.00%	2040
	2,780,000	485,869	3,480,000	1,094,130	6,260,000	1,579,999	7,839,999			

\* Preliminary, subject to change.

1) This represents the \$3,480,000 Street Reconstruction portion of the \$4,135,000 General Obligation Bonds, Series 2024A.

**OVERLAPPING DEBT<sup>1</sup>**

<b>Taxing District</b>	<b>2023/24 Adjusted Taxable Net Tax Capacity</b>	<b>% In City</b>	<b>Total G.O. Debt<sup>2</sup></b>	<b>City's Proportionate Share</b>
Washington County	\$515,896,113	2.1760%	\$80,210,000	\$1,745,370
I.S.D. No. 831 (Forest Lake)	100,012,106	9.6578%	166,915,000 <sup>3</sup>	16,120,317
I.S.D. No. 834 (Stillwater Public Schools)	179,620,659	0.0197%	167,695,000 <sup>3</sup>	33,036
I.S.D. No. 2144 (Chisago Lakes)	42,589,860	3.5963%	56,320,000 <sup>3</sup>	2,025,436
Metropolitan Council	6,313,906,529	0.1778%	191,435,000 <sup>4</sup>	340,371
City's Share of Total Overlapping Debt				<u>\$20,264,530</u>

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

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

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

<sup>4</sup> The above debt includes all outstanding general obligation debt supported by taxes of the Metropolitan Council. The Council also has general obligation wastewater revenue, grant anticipation notes and certificates of participation outstanding all of which are supported entirely by revenues and have not been included in the overlapping debt or debt ratios sections.

## DEBT RATIOS

	G.O. Debt	Debt/Economic Market Value \$1,078,757,159	Debt/ Per Capita 4,001 <sup>1</sup>
Direct G.O. Debt Secured By:			
Special Assessments & Taxes*	\$655,000		
Taxes*	6,260,000		
Total General Obligation Debt*	<u>\$6,915,000</u>		
Less: G.O. Debt Paid Entirely from Revenues <sup>2</sup>	<u>0</u>		
Tax Supported General Obligation Debt*	\$6,915,000	0.64%	\$1,728.32
 City's Share of Total Overlapping Debt	 <u>\$20,264,530</u>	 <u>1.88%</u>	 <u>\$5,064.87</u>
 Total*	 <u><u>\$27,179,530</u></u>	 <u><u>2.52%</u></u>	 <u><u>\$6,793.18</u></u>

\*Preliminary, subject to change.

## TAX LEVIES, COLLECTIONS AND RATES

### TAX LEVIES AND COLLECTIONS

Tax Year	Net Tax Levy <sup>3</sup>	Total Collected Following Year	Collected to Date	% Collected
2019/20	\$2,417,000	\$2,376,135	\$2,416,998	99.9999%
2020/21	2,497,431	2,471,560	2,495,722	99.9316%
2021/22	2,565,817	2,534,943	2,562,324	99.8638%
2022/23	2,788,171	2,761,319	2,761,319	99.0369%
2023/24	2,982,129	In process of collection		

Property taxes are collected in two installments in Minnesota--the first by May 15 and the second by October 15.<sup>4</sup> Mobile home taxes are collectible in full by August 31. Minnesota Statutes require that levies (taxes and special assessments) for debt service be at least 105% of the actual debt service requirements to allow for delinquencies.

<sup>1</sup> Estimated 2022 population.

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

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

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

## TAX CAPACITY RATES<sup>1</sup>

	2019/20	2020/21	2021/22	2022/23	2023/24
Washington County	28.944%	27.435%	27.532%	23.625%	21.991%
City of Scandia	31.466%	30.815%	30.945%	26.459%	26.704%
I.S.D. No. 831 (Forest Lake)	25.097%	25.090%	24.425%	22.267%	23.215%
I.S.D. No. 834 (Stillwater Public Schools)	15.321%	17.278%	19.502%	17.143%	22.033%
I.S.D. No. 2144 (Chisago Lakes)	26.676%	24.738%	23.437%	19.090%	17.412%
Carnelian-Marine Watershed	3.993%	3.841%	4.133%	3.502%	3.688%
Comfort Lake-FL Watershed	5.835%	5.708%	5.999%	4.781%	4.778%
Metro Mosquito	0.390%	0.379%	0.361%	0.309%	0.301%
Metropolitan Council	0.584%	0.628%	0.630%	0.537%	0.590%
Regional Rail Authority	0.165%	0.157%	0.149%	0.122%	0.109%
Rice Creek Watershed	1.926%	1.918%	1.805%	1.559%	1.612%

### *Referendum Market Value Rates:*

Washington County	0.00342%	0.00325%	0.00308%	0.00261%	0.00235%
I.S.D. No. 831 (Forest Lake)	0.17344%	0.16723%	0.15336%	0.12825%	0.12232%
I.S.D. No. 834 (Stillwater Public Schools)	0.17595%	0.16640%	0.18360%	0.15164%	0.14128%
I.S.D. No. 2144 (Chisago Lakes)	0.16193%	0.14396%	0.13986%	0.11071%	0.10510%

**Source:** Tax Levies and Collections and Tax Capacity Rates have been furnished by Washington County.

## THE ISSUER

### CITY GOVERNMENT

The City was organized as a municipality in 2007. The City operates under a statutory form of government consisting of a four-member City Council of which the Mayor is a voting member. The City Administrator and Treasurer are responsible for administrative details and financial records.

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

## **EMPLOYEES; PENSIONS; UNIONS**

The City currently has 7 full-time and 1 part-time employees. All full-time and certain part-time employees of the City are covered by defined benefit pension plans administered by the Public Employee Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund (GERF) and the Public Employees Police and Fire Fund (PEPFF) which are cost-sharing multiple-employer retirement plans. PERA members belong to either the Coordinated Plan or the Basic Plan. Coordinated members are covered by Social Security. See the Notes to Financial Statements in Appendix A for a detailed description of the Plans.

### **Recognized and Certified Bargaining Unit**

<b>Bargaining Unit</b>	<b>Expiration Date of Current Contract</b>
IUOE Local 49	December 31, 2026

## **POST EMPLOYMENT BENEFITS**

The City has not done an actuarial study at this time.

## **LITIGATION**

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

## **MUNICIPAL BANKRUPTCY**

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

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



**FUNDS ON HAND** (as of December 31, 2023)

<b>Fund</b>	<b>Total Cash and Investments</b>
General	\$1,522,542
Special Revenue	700,290
Debt Service	94,334
Capital Projects	1,150,061
Enterprise Funds	<u>72,412</u>
 Total Funds on Hand	 <u><u>\$3,539,639</u></u>

**ENTERPRISE FUNDS**

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

	<b>2021 Audited</b>	<b>2022 Audited</b>	<b>2023 Audited</b>
<b>Big Marine Sewer</b>			
Total Operating Revenues	\$98,001	\$101,783	\$139,546
Less: Operating Expenses	<u>(101,246)</u>	<u>(117,062)</u>	<u>(123,718)</u>
Operating Income	(\$3,245)	(\$15,279)	\$15,828
Plus: Depreciation	<u>48,667</u>	<u>50,174</u>	<u>50,428</u>
Revenues Available for Debt Service	<u><u>\$45,422</u></u>	<u><u>\$34,895</u></u>	<u><u>\$66,256</u></u>
 <b>Uptown Sewer</b>			
Total Operating Revenues	\$15,132	\$17,442	\$22,166
Less: Operating Expenses	<u>(19,582)</u>	<u>(21,515)</u>	<u>(23,299)</u>
Operating Income	(\$4,450)	(\$4,073)	(\$1,133)
Plus: Depreciation	<u>4,876</u>	<u>4,877</u>	<u>4,876</u>
Revenues Available for Debt Service	<u><u>\$426</u></u>	<u><u>\$804</u></u>	<u><u>\$3,743</u></u>

**SUMMARY GENERAL FUND INFORMATION**

The following are summaries of the revenues and expenditures and fund balances for the City's General Fund. These summaries are not purported to be the complete audited financial statements of the City, and potential purchasers should read the included financial statements in their entirety for more complete information concerning the City. Copies of the complete statements are available upon request. Appendix A includes the 2023 audited financial statements.

<b>COMBINED STATEMENT</b>	<b>FISCAL YEAR ENDING DECEMBER 31</b>				<b>2024</b>
	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>Adopted</b>
	<b>Audited</b>	<b>Audited</b>	<b>Audited</b>	<b>Audited</b>	<b>Budget<sup>1</sup></b>
<b>Revenues</b>					
Property taxes	\$1,553,879	\$1,425,296	\$1,607,142	\$1,877,975	\$1,865,918
Fiscal Disparities/Other Taxes	0	0	0	0	134,357
Franchise Fees	5,104	6,965	4,115	5,874	4,400
Licenses and permits	151,164	215,320	182,640	195,194	179,100
Intergovernmental	72,885	70,580	69,875	83,775	71,674
Charges for services	43,276	63,081	53,383	58,499	53,565
Fine and forfeitures	7,561	6,899	6,027	7,133	7,000
Interest on investments	11,463	3,133	5,459	29,798	5,636
Miscellaneous	18,879	46,018	13,452	12,577	11,000
<b>Total Revenues</b>	<b>\$1,864,211</b>	<b>\$1,837,292</b>	<b>\$1,942,093</b>	<b>\$2,270,825</b>	<b>\$2,332,650</b>
<b>Expenditures</b>					
Current:					
General government	\$535,026	\$515,988	\$598,355	\$633,330	\$728,703
Public safety	323,316	539,313	530,584	634,771	548,126
Public works	568,500	557,554	632,254	680,238	826,269
Parks and Recreation	133,534	110,988	152,152	144,544	206,201
Capital outlay	23,337	15,687	29,255	21,467	0
<b>Total Expenditures</b>	<b>\$1,583,713</b>	<b>\$1,739,530</b>	<b>\$1,942,600</b>	<b>\$2,114,350</b>	<b>\$2,309,299</b>
<b>Excess of revenues over (under) expenditures</b>	<b>\$280,498</b>	<b>\$97,762</b>	<b>(\$507)</b>	<b>\$156,475</b>	<b>\$23,351</b>
<b>Other Financing Sources (Uses)</b>					
Transfers in	\$17,700	\$0	\$0	\$0	\$0
Transfers (out)	(30,000)	(282,690)	0	(146,620)	0
<b>Total Other Financing Sources (Uses)</b>	<b>(12,300)</b>	<b>(282,690)</b>	<b>0</b>	<b>(146,620)</b>	<b>0</b>
<b>Net changes in Fund Balances</b>	<b>\$268,198</b>	<b>(\$184,928)</b>	<b>(\$507)</b>	<b>\$9,855</b>	<b>\$23,351</b>
General Fund Balance January 1	\$1,267,024	\$1,535,222	\$1,350,294	\$1,349,787	
Prior Period Adjustment	0	0	0	0	
Residual Equity Transfer in (out)	0	0	0	0	
General Fund Balance December 31	\$1,535,222	\$1,350,294	\$1,349,787	\$1,359,642	
<b>DETAILS OF DECEMBER 31 FUND BALANCE</b>					
Nonspendable	\$14,800	\$19,622	\$16,618	\$23,333	
Unassigned	1,520,422	1,330,672	1,333,169	1,336,309	
<b>Total</b>	<b>\$1,535,222</b>	<b>\$1,350,294</b>	<b>\$1,349,787</b>	<b>\$1,359,642</b>	

<sup>1</sup> The 2024 budget was adopted on December 19, 2023.

## GENERAL INFORMATION

### LOCATION

The City, with a 2020 U.S. Census population of 3,984 and a 2022 population estimate of 4,001, and comprising an area of 39.85 square miles, is located approximately 23 miles northeast of St. Paul, Minnesota.

### LARGER EMPLOYERS<sup>1</sup>

Larger employers in the City include the following:

Firm	Type of Business/Product	Estimated No. of Employees
Gammelgarden Museum	Museum with classes and events	30
Meisters Bar & Grill	Bar and restaurant	25
United Packing & Design LLC	Custom engineering & design	15
Abrahamson Nurseries	Landscape designers and contractors	15
Scandia Pizzeria	Restaurant	15
Prairie Restorations	Landscape contractors	14
P N Products	Packaging materials- manufacturers	10
Elim Lutheran Church	Church	10
The City	Municipal government and services	8
Security State Bank of Marine	Bank	7

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

### BUILDING PERMITS (as of April 1, 2024)

	2020	2021	2022	2023	2024
<u>All Building Permits</u> <i>(including additions and remodelings)</i>					
No. of building permits	6	18	16	12	2
Valuation	\$2,546,000	\$9,209,900	\$8,545,000	\$4,528,800	\$1,273,000

**Source:** The City.

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

## U.S. CENSUS DATA

### Population Trend: The City

2010 U.S. Census population	3,934
2020 U.S. Census population	3,984
Percent of Change 2010 - 2020	1.22%

2022 State Demographer Population Estimate 4,001

### Income and Age Statistics

	The City	Washington County	State of Minnesota	United States
2022 per capita income	\$59,195	\$54,418	\$44,947	\$41,261
2022 median household income	\$97,159	\$110,828	\$74,313	\$75,149
2022 median family income	\$128,125	\$132,135	\$107,072	\$92,646
2022 median gross rent	\$899	\$1,577	\$1,178	\$1,268
2022 median value owner occupied units	\$458,700	\$379,300	\$286,800	\$281,900
2022 median age	46.0 yrs.	39.8 yrs.	38.5 yrs.	38.5 yrs.

	State of Minnesota	United States
City % of 2022 per capita income	131.70%	143.46%
City % of 2022 median family income	119.66%	138.30%

### Housing Statistics

	The City		Percent of Change
	2020	2022	
All Housing Units	1,559	1,582	1.48%

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

## EMPLOYMENT/UNEMPLOYMENT DATA

Rates are not compiled for individual communities within counties.

Year	Average Employment		Average Unemployment	
	Washington County	Washington County	State of Minnesota	
2020	138,162	5.7%	6.3%	
2021	137,110	3.3%	3.8%	
2022	141,362	2.3%	2.7%	
2023	142,073	2.6%	2.8%	
2024, February	141,094	3.0%	3.6%	

**Source:** Minnesota Department of Employment and Economic Development.

**FINANCIAL STATEMENTS**

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

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

# City of Scandia, Minnesota

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Audited Financial Statements

For The Year Ended  
December 31, 2023

**SCHLENNER  
WENNER & Co.**  
CPAs

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

**INTRODUCTORY SECTION:**

**CITY COUNCIL AND OFFICIALS** ..... 2

**FINANCIAL SECTION:**

**INDEPENDENT AUDITOR’S REPORT** ..... 4

**REQUIRED SUPPLEMENTARY INFORMATION:**

Management’s Discussion and Analysis ..... 8

**BASIC FINANCIAL STATEMENTS:**

*Government-wide Financial Statements*

Statement of Net Position ..... 19

Statement of Activities ..... 20

*Fund Financial Statements*

Balance Sheet – Governmental Funds ..... 21

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

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

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

Statement of Net Position – Proprietary Funds ..... 27

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

Statement of Cash Flows – Proprietary Funds ..... 29

*Notes to the Basic Financial Statements* ..... 31

**REQUIRED SUPPLEMENTARY INFORMATION:**

Budgetary Comparison Schedule – General Fund ..... 59

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

Schedule of City Pension Contributions ..... 62

Schedule of Changes in Net Pension Liability (Asset) ..... 63

Notes to the Required Supplementary Information ..... 64

**SUPPLEMENTARY INFORMATION:**

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

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

Combining Balance Sheet – All Nonmajor Governmental Funds ..... 72

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

Schedule of Indebtedness ..... 74

**OTHER REQUIRED REPORTS:**

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

Schedule of Findings and Responses ..... 78

Corrective Action Plans ..... 80

**INTRODUCTORY  
SECTION**



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

**CITY COUNCIL**

Term Expires

Christine Maefsky	Mayor	December 31, 2024
Heather Benson	Council Member	December 31, 2024
Jerry Cusick	Council Member	December 31, 2026
Steve Kronmiller	Council Member	December 31, 2024
Mike Lubke	Council Member	December 31, 2026

**CITY OFFICIALS**

Kyle Morell	City Administrator
Colleen Firkus	Treasurer

**FINANCIAL  
SECTION**

## INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council  
City of Scandia, Minnesota

### Report on the Audit of the Financial Statements

#### *Opinions*

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Scandia, Minnesota (the City), as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Scandia, Minnesota, as of December 31, 2023, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### *Basis for Opinions*

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

#### *Emphasis of Matter*

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

#### *Responsibilities of Management for the Financial Statements*

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

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

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

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

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

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

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

### ***Supplementary Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying introductory section, combining and individual nonmajor governmental funds financial statements and supplemental schedules, and schedule of indebtedness are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated April 12, 2024, on our consideration of the City of Scandia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Scandia's internal control over financial reporting and compliance.



**SCHLENNER WENNER & CO.**

St. Cloud, Minnesota

April 12, 2024

**REQUIRED SUPPLEMENTARY  
INFORMATION**

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

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

**FINANCIAL HIGHLIGHTS**

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

**USING THIS ANNUAL REPORT**

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

**Reporting the City as a Whole**

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

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

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

**USING THIS ANNUAL REPORT (Continued)**

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

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

**Reporting the City's Most Significant Funds**

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

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



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

**THE CITY AS A WHOLE**

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

**Table 1  
Net Position**

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

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

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

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

**THE CITY AS A WHOLE** (Continued)

**Table 2  
Changes in Net Position**

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

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

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

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

**THE CITY AS A WHOLE** (Continued)

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

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

**Governmental Activities**

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

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

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

**Table 3  
Governmental Activities**

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

**Business-type Activities**

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

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

**THE CITY'S FUNDS**

**Governmental Funds**

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

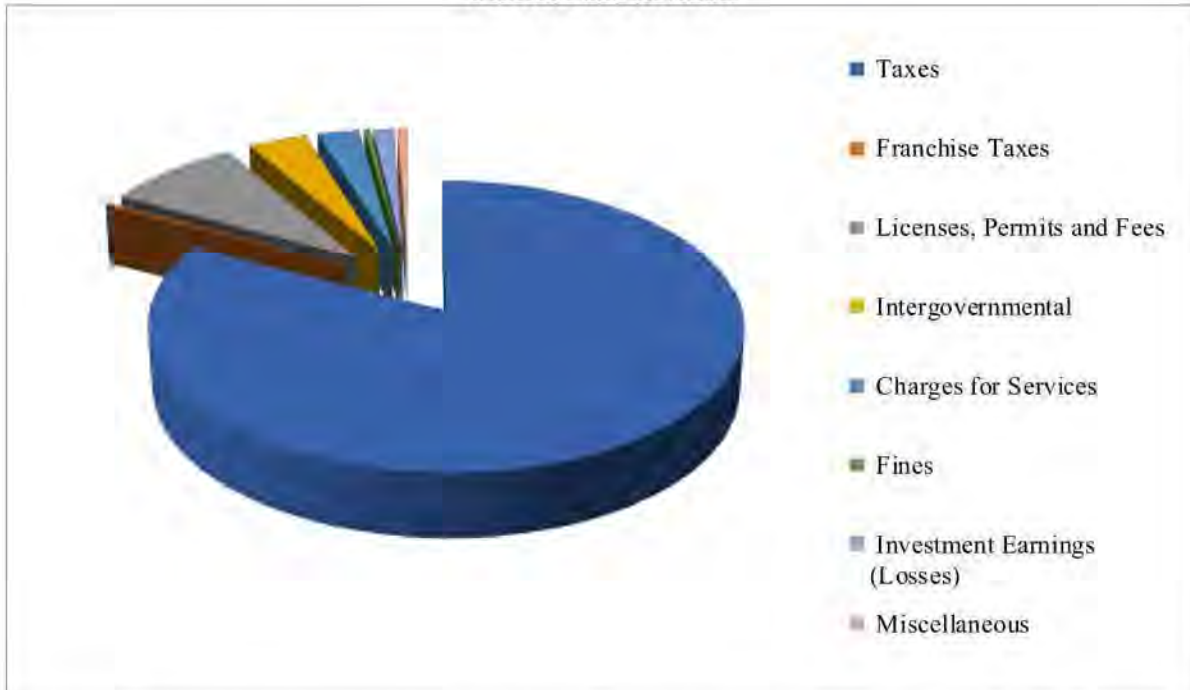
- Public safety program wage and salary expenditures increased, as previously discussed.
- Significant expenditures were incurred for capital outlay again in the current year, as discussed in greater detail below.

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

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

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

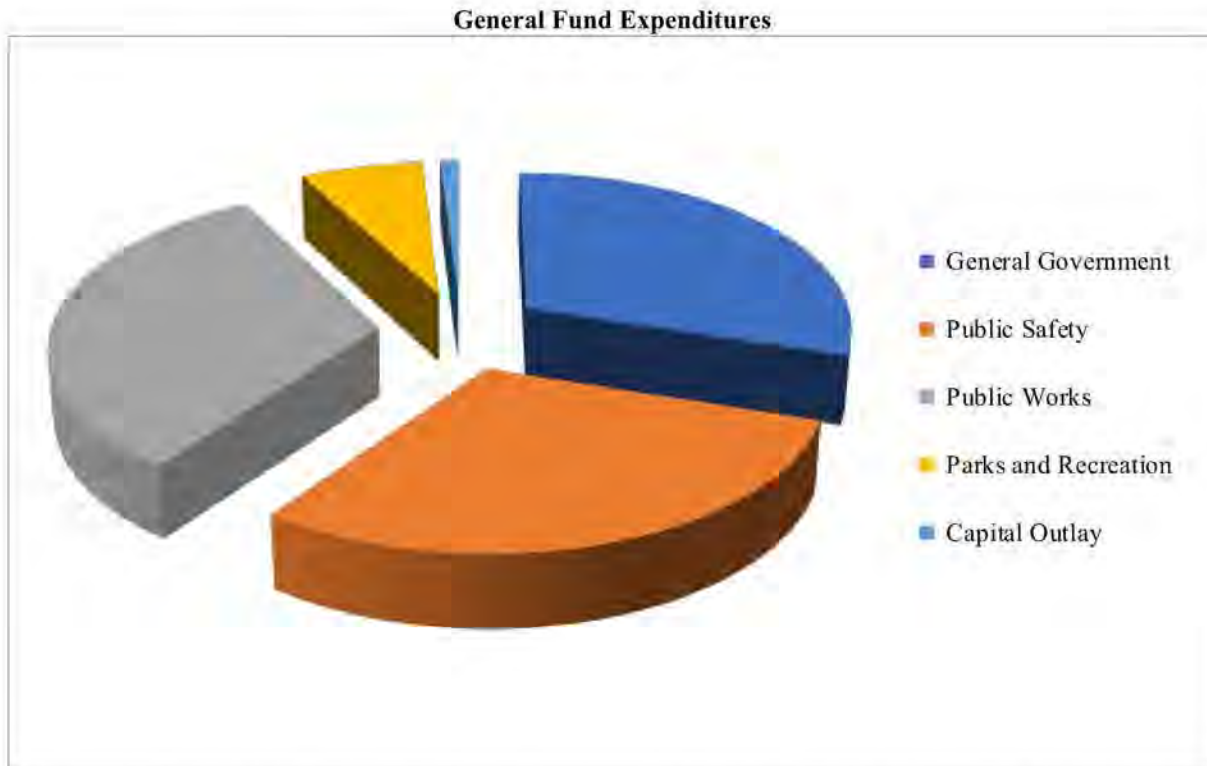
**General Fund Revenues**



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

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

**THE CITY'S FUNDS** (Continued)



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

General Fund Budgetary Highlights

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

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

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

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

**THE CITY'S FUNDS** (Continued)

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

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

<b>Park Capital Improvement Fund</b>	\$ 91,868	\$ 130,797	\$ (38,929)
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At December 31, 2023, the Park Capital Improvement Fund has a cash balance of \$63,928. The fund balance decreased by \$38,929 primarily due to capital expenditures for the playground project exceeding the revenue sources for the fund.

<b>Debt Service Fund</b>	\$ 94,334	\$ 74,157	\$ 20,177
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At December 31, 2023, the Debt Service Fund has a cash balance of \$94,334. The fund balance increased by \$20,177 primarily due to revenues from property taxes exceeding the payment of principal and interest.

<b>COVID Relief Fund</b>	\$ 466,422	\$ 456,363	\$ 10,059
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At December 31, 2023, the Covid Relief Fund has a cash balance of \$466,422. The fund balance increased by \$10,059 due to investment earnings recognized on Federal covid aid received in prior years that remains unspent.

**Proprietary Funds**

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

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

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

<b>Uptown Sewer Fund</b>	\$ 160,274	\$ 161,080	\$ (806)
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The Uptown Sewer Fund provides sanitary sewer services to commercial customers near the Olinda Trail / Oakhill intersection. At December 31, 2023, the fund had a cash balance of \$18,168 with an increase in cash of \$4,146 for the year. The increase in cash is attributable to an increase in charges for services revenues in the current year. The fund's net position decreased \$806 during the year as a result of operating expenses exceeding revenues from charges for services.

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

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

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

**Table 4  
Capital Assets Net of Depreciation**

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

Significant capital asset acquisitions during 2023 were:

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

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

**Debt**

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

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

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

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

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

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

**CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

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



## **BASIC FINANCIAL STATEMENTS**

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

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

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

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

See accompanying notes.

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

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

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

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

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

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

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

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

See accompanying notes.

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

	General Fund	Capital Project				COVID Relief Fund	Debt Service Fund	Total Nonmajor Funds	Total Governmental Funds
		Capital Improvement Fund	Local Road Improvement Fund	Park Capital Improvement Fund					
<b>OTHER FINANCING SOURCES (USES)</b>									
Transfers In	\$ -	\$ -	\$ -	\$ 146,620	\$ -	\$ -	\$ -	\$ 146,620	
Transfers Out	(146,620)	-	-	-	-	-	-	(146,620)	
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	(146,620)	-	-	146,620	-	-	-	-	
<b>NET CHANGE IN FUND BALANCES</b>	9,855	131,314	(796,737)	(38,929)	20,177	10,059	138,983	(525,278)	
<b>FUND BALANCES - BEGINNING</b> (As Previously Reported)	1,349,787	564,735	896,739	130,797	74,157	456,363	246,969	3,719,547	
<b>PRIOR PERIOD ADJUSTMENT</b> (See Note 6.D.)	-	12,750	-	-	-	-	-	12,750	
<b>FUND BALANCES - BEGINNING</b> (As Restated)	1,349,787	577,485	896,739	130,797	74,157	456,363	246,969	3,732,297	
<b>FUND BALANCES - ENDING</b>	\$ 1,359,642	\$ 708,799	\$ 100,002	\$ 91,868	\$ 94,334	\$ 466,422	\$ 385,952	\$ 3,207,019	



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

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

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

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

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

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

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

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

245

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

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

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds:

Compensated Absences		(17,001)
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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 Asset/Liability and Deferred Outflows/Inflows of Resources		<u>(9,146)</u>
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**CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 380,456**

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

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

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

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

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

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

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

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

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

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

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

**1.A. FINANCIAL REPORTING ENTITY**

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

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

**Blended Component Units**

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

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

**Discretely Presented Component Units**

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

**1.B. BASIS OF PRESENTATION**

**Government-wide Financial Statements**

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

**Fund Financial Statements**

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

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

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**1.B. BASIS OF PRESENTATION (Continued)**

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

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

The City reports the following major governmental funds:

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

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

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

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

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

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

The City reports the following major proprietary fund:

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

Additionally, the government reports the following nonmajor fund types:

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

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

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

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

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**1.C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING**

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

**Measurement Focus**

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

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

**Basis of Accounting**

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

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

All proprietary funds utilize the accrual basis of accounting.

**1.D BUDGETARY INFORMATION**

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

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



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

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**1.E. USE OF ESTIMATES**

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

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

**Cash and Cash Equivalents**

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

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

**Interfund Transactions and Balances**

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

**Receivables**

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

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

**Inventories**

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

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

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

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

**Prepays**

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

**Capital Assets**

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

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

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

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

Government-wide Statements

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

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

Fund Financial Statements

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

**Accounts Payable**

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

**Compensated Absences**

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

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

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

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

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

**Long-Term Debt**

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

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

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

**Net Pension Asset/Liability**

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

PERA

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

**Deferred Outflows/Inflows of Resources**

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

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

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

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

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

**Equity Classifications**

Government-wide Statements

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

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

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

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

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

Governmental Fund Financial Statements

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

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

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

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

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

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

See Note 2.E. for additional disclosures.

Proprietary Fund Financial Statements

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

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

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**1.G. REVENUES, EXPENDITURES, AND EXPENSES**

**Property Tax**

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

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

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

**Special Assessments**

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

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

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

**Operating Revenues and Expenses**

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

**Expenditures/Expenses**

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

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

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

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

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

Proprietary Fund – By Operating and Nonoperating

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

**Interfund Transfers**

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

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

**NOTE 2    DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS**

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

**2.A.    CASH, CASH EQUIVALENTS, AND INVESTMENTS**

**Deposits**

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

Authorized collateral in lieu of a corporate surety bond includes:

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

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

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

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

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

**2.B.    CAPITAL ASSETS**

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

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

Depreciation is charged to governmental activities as follows:

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



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

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

**2.B. CAPITAL ASSETS (Continued)**

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

**2.C. NONCURRENT LIABILITIES**

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

**Debt Detail**

General Obligation Bonds

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

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

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

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

**2.C.    NONCURRENT LIABILITIES (Continued)**

**Changes in Noncurrent Liabilities**

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

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

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

**Annual Debt Service Requirements**

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

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

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

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

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

**2.D.    INTERFUND TRANSACTIONS AND BALANCES**

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

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

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

The interfund balances are as follows:

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

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

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

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

**2.E.    FUND EQUITY**

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

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

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

**NOTE 3    DEFINED BENEFIT PENSION PLANS - STATEWIDE**

**Plan Description**

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

General Employees Retirement Plan

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

Public Employees Police and Fire Plan

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

**Benefits Provided**

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

General Employees Plan Benefits

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

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

Police and Fire Plan Benefits

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

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

**NOTE 3    DEFINED BENEFIT PENSION PLANS - STATEWIDE (Continued)**

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

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

**Contributions**

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

General Employees Fund Contributions

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

Police and Fire Fund Contributions

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

**Pension Costs**

General Employees Fund Pension Costs

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

The net pension liability was measured as of June 30, 2023, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportionate share of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2022 through June 30, 2023, relative to the total employer contributions received from all of PERA's participating employers. The City's proportionate share was 0.0060 percent at the end of the measurement period and 0.0064 percent for the beginning of the period.

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

For the year ended December 31, 2023, the City recognized pension expense of \$917 for its proportionate share of the General Employees Plan's pension expense. In addition, the City recognized an additional \$41 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the General Employees Fund.

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

**NOTE 3 DEFINED BENEFIT PENSION PLANS - STATEWIDE (Continued)**

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

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

The \$19,053 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2024. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

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

**Police and Fire Fund Pension Costs**

At December 31, 2023, the City reported a liability of \$67,348 for its proportionate share of the Police and Fire Fund's net pension liability. The net pension liability was measured as of June 30, 2023, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportionate share of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2022 through June 30, 2023, relative to the total employer contributions received from all of PERA's participating employers. The City's proportionate share was 0.0039 percent at the end of the measurement period and 0.0039 percent for the beginning of the period.

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

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

**NOTE 3 DEFINED BENEFIT PENSION PLANS - STATEWIDE (Continued)**

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

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

The State of Minnesota is not included as a non-employer contributing entity in the Police and Fire Pension Plan pension allocation schedules for the \$9 million in supplemental state aid. The City recognized \$351 for the year ended December 31, 2023 as revenue and an offsetting reduction of net pension liability for its proportionate share of the State of Minnesota's on-behalf contributions to the Police and Fire Fund.

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

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

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



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

**NOTE 3    DEFINED BENEFIT PENSION PLANS - STATEWIDE (Continued)**

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

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

**Long-Term Expected Return on Investment**

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	33.5%	5.10%
International Equity	16.5%	5.30%
Fixed Income	25.0%	0.75%
Private Markets	<u>25.0%</u>	5.90%
Total	<u>100%</u>	

**Actuarial Methods and Assumptions**

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

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

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

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

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

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

**NOTE 3    DEFINED BENEFIT PENSION PLANS - STATEWIDE (Continued)**

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

General Employees Fund

Changes in Actuarial Assumptions:

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

Changes in Plan Provisions:

- An additional one-time direct State aid contribution of \$170.1 million will be contributed to the Plan on October 1, 2023.
- The vesting period of those hired after June 30, 2010 was changed from five years of allowable service to three years of allowable service.
- The benefit increase delay for early retirements on or after January 1, 2024 was eliminated.
- A one-time, non-compounding benefit increase of 2.50 percent minus the actual 2024 adjustment will be payable in a lump sum for calendar year 2024 by March 31, 2024.

Police and Fire Fund

Changes in Actuarial Assumptions:

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

Changes in Plan Provisions:

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

**Discount Rate**

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

**Pension Liability Sensitivity**

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

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

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

**NOTE 3 DEFINED BENEFIT PENSION PLANS - STATEWIDE (Continued)**

**Pension Plan Fiduciary Net Position**

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

**NOTE 4 DEFINED CONTRIBUTION PENSION PLAN - STATEWIDE**

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

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. *Minnesota Statutes*, Chapter 353D.03, specifies plan provisions, including the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes five percent of salary which is matched by the elected official's employer. For ambulance service personnel, employer contributions are determined by the employer, and for salaried employees contributions must be a fixed percentage of salary. Employer contributions for volunteer personnel may be a unit value for each call or period of alert duty. Employees who are paid for their services may elect to make member contributions in an amount not to exceed the employer share. Employer and employee contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives two percent of employer contributions and twenty-five hundredths of one percent (0.25 percent) of the assets in each member's account annually.

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

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

**NOTE 5 STATEWIDE VOLUNTEER FIREFIGHTER RETIREMENT PLAN**

**Plan Description**

The Scandia Fire/Rescue participates in the Statewide Volunteer Firefighter Retirement Plan (accounted for in the Volunteer Firefighter Fund), an agent multiple-employer lump-sum defined benefit pension plan administered by the Public Employees Retirement Association of Minnesota (PERA). The Volunteer Firefighter Plan covers volunteer firefighters of municipal fire departments or independent nonprofit firefighting corporations that have elected to join the plan. As of December 31, 2022, the plan covered 26 active firefighters and 5 vested terminated firefighters whose pension benefits are deferred. The plan is established and administered in accordance with *Minnesota Statutes*, Chapter 353 G.

**Benefits Provided**

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

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

**NOTE 5 STATEWIDE VOLUNTEER FIREFIGHTER RETIREMENT PLAN (Continued)**

**Contributions**

The Volunteer Firefighter Plan is funded by fire state aid, investment earnings and, if necessary, employer contributions as specified in *Minnesota Statutes*, and voluntary City contributions. The State of Minnesota contributed \$40,474 in fire state aid to the fund for the year ended December 31, 2022. Required employer contributions are calculated annually based on statutory provisions. The City of Scandia's statutorily-required contributions to the Volunteer Firefighter Fund for the year ended December 31, 2022 were \$0.

**Pension Costs**

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

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

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

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

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

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

**NOTE 5 STATEWIDE VOLUNTEER FIREFIGHTER RETIREMENT PLAN (Continued)**

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

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

**Actuarial Assumptions**

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

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

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

**Discount Rate**

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

**Pension Liability Sensitivity**

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

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

**Plan Investments**

Investment Policy

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

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

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

**NOTE 5 STATEWIDE VOLUNTEER FIREFIGHTER RETIREMENT PLAN (Continued)**

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

Asset Allocation

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Stocks	35%	5.10%
International Stocks	15%	5.30%
Bonds	45%	0.75%
Unallocated Cash	5%	0.00%

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

Description of significant investment policy changes during the year

The SBI made no significant changes to their investment policy during fiscal year 2022 for Volunteer Firefighter Fund.

**Pension Plan Fiduciary Net Position**

Detailed information about the Volunteer Firefighter Fund’s fiduciary net position as of December 31, 2022, is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained at [www.mnpera.org](http://www.mnpera.org).

**NOTE 6 OTHER NOTES**

**6.A. RISK MANAGEMENT**

**Claims and Judgements**

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

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

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

**NOTE 6 OTHER NOTES (Continued)**

**6.B. COMMITMENTS**

**Law Enforcement Services**

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

**Purchases**

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

**6.C. OTHER EMPLOYEE BENEFITS**

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

**6.D. CORRECTION OF AN ERROR**

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

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

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

**NOTE 6    OTHER NOTES (Continued)**

**6.E.    SUBSEQUENT EVENTS**

**Construction Projects**

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



**REQUIRED SUPPLEMENTARY INFORMATION**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**NOTE 1 PUBLIC EMPLOYEES RETIREMENT PLAN – GENERAL EMPLOYEES FUND**

**2023 Changes**

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

- An additional one-time direct State aid contribution of \$170.1 million will be contributed to the Plan on October 1, 2023.
- The vesting period of those hired after June 30, 2010 was changed from five years of allowable service to three years of allowable service.
- The benefit increase delay for early retirements on or after January 1, 2024 was eliminated.
- A one-time, non-compounding benefit increase of 2.50 percent minus the actual 2024 adjustment will be payable in a lump sum for calendar year 2024 by March 31, 2024.

**2022 Changes**

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

**2021 Changes**

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

**2020 Changes**

Changes in Actuarial Assumptions

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

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

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

- The assumed number of married male new retirees electing the 100.00 percent Joint & Survivor option changed from 35.00 percent to 45.00 percent. The assumed number of married female new retirees electing the 100.00 percent Joint & Survivor option changed from 15.00 percent to 30.00 percent. The corresponding number of married new retirees electing the Life annuity option was adjusted accordingly.

Changes in Plan Provisions

- Augmentation for current privatized members was reduced to 2.00 percent for the period July 1, 2020 through December 31, 2023 and 0.00 percent after. Augmentation was eliminated for privatizations occurring after June 30, 2020.

**2019 Changes**

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

**2018 Changes**

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

**2017 Changes**

Changes in Actuarial Assumptions

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



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

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

Changes in Plan Provisions

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

**2016 Changes**

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

**2015 Changes**

Changes in Actuarial Assumptions

- The assumed postretirement benefit increase rate was changed from 1.00 percent per year through 2030 and 2.50 percent per year thereafter to 1.00 percent per year through 2035 and 2.50 percent per year thereafter.

Changes in Plan Provisions

- On January 1, 2015, the Minneapolis Employees Retirement Fund was merged into the General Employees Fund, which increased the total pension liability by \$1.1 billion and increased the fiduciary plan net position by \$892 million. Upon consolidation, State and employer contributions were revised; the State's contribution of \$6 million, which meets the special funding situation definition, was due September 2015.

**NOTE 2 PUBLIC EMPLOYEES RETIREMENT PLAN – POLICE AND FIRE FUND**

**2023 Changes**

Changes in Actuarial Assumptions:

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

Changes in Plan Provisions:

- Additional one-time direct state aid contribution of \$19.4 million will be contributed to the Plan on October 1, 2023.
- Vesting requirement for new hires after June 30, 2014 was changed from a graded 20-year vesting schedule to a graded 10-year vesting schedule, with 50.00 percent vesting after five years, increasing incrementally to 100.00 percent after 10 years.
- A one-time, non-compounding benefit increase of 3.00 percent will be payable in a lump sum for calendar year 2024 by March 31, 2024.
- Psychological treatment is required effective July 1, 2023, prior to approval for a duty disability benefit for a psychological condition relating to the member's occupation.

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

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

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

**2022 Changes**

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

**2021 Changes**

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

**2020 Changes**

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

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

**NOTE 3 STATEWIDE VOLUNTEER FIREFIGHTER RETIREMENT PLAN**

**2022 Changes**

Changes in Actuarial Assumptions

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

**2021 Changes**

Changes in Actuarial Assumptions

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

**2020 Changes**

Changes in Actuarial Assumptions

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

**2019 Changes**

Changes in Actuarial Assumptions

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

**2018 Changes**

Changes in Actuarial Assumptions

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

**2017 Changes**

Changes in Actuarial Assumptions

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

**2016 Changes**

Changes in Actuarial Assumptions

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

**2015 Changes**

Changes in Actuarial Assumptions

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

**SUPPLEMENTARY INFORMATION**

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

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

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

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

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

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

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

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



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

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

2013 Certificates of Indebtedness  
 G.O. Street Reconstruction Bonds, Series 2018A

## **OTHER REQUIRED REPORTS**

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

Honorable Mayor and City Council  
City of Scandia, Minnesota

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

***Report on Internal Control Over Financial Reporting***

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

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

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

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

## ***Report on Compliance and Other Matters***

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

### ***Minnesota Legal Compliance***

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

### **City of Scandia's Response to Findings**

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

### **Purpose of this Report**

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



**SCHLENNER WENNER & CO.**

St. Cloud, Minnesota

April 12, 2024

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

**FINANCIAL STATEMENT FINDINGS**

**Finding 2013-001    Limited Segregation of Duties**

*Condition:*                    The City has limited segregation of accounting duties.

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

*Cause:*                        There are a limited number of employees.

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

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

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

**Finding 2019-001    Material Audit Adjustments**

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

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

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

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

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

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

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

**FINANCIAL STATEMENT FINDINGS (Continued)**

**Finding 2019-002    Financial Statement Preparation**

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

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

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

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

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

*Views of Responsible  
Officials And Planned  
Corrective Actions:*

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

**Finding 2023-001    Prior Period Adjustment**

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

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

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

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

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

*Views of Responsible  
Officials and Planned  
Corrective Actions:*

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

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

**FINANCIAL STATEMENT FINDINGS**

**Finding 2013-001 Limited Segregation of Duties**

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

**Finding 2019-001 Material Audit Adjustments**

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

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

**FINANCIAL STATEMENT FINDINGS (Continued)**

**Finding 2019-002 Financial Statement Preparation**

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

**Finding 2023-001 Prior Period Adjustment**

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



**FORM OF LEGAL OPINION**

(See following pages)

PROPOSED FORM OF LEGAL OPINION

\$ \_\_\_\_\_  
GENERAL OBLIGATION BONDS, SERIES 2024A  
CITY OF SCANDIA  
WASHINGTON COUNTY  
MINNESOTA

We have acted as bond counsel in connection with the issuance by the City of Scandia, Washington County, Minnesota (the "Issuer"), of its \$ \_\_\_\_\_ General Obligation Bonds, Series 2024A, bearing a date of original issue of May 22, 2024 (the "Bonds"). We have examined the law and such certified proceedings and other documents as we deem necessary to render this opinion.

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

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

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

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

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

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

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

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

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

TAFT STETTINIUS & HOLLISTER LLP

**BOOK-ENTRY-ONLY SYSTEM**

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

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

**FORM OF CONTINUING DISCLOSURE UNDERTAKING**

(See following pages)

PROPOSED FORM OF CONTINUING DISCLOSURE UNDERTAKING

This Continuing Disclosure Undertaking (the "Disclosure Undertaking") is executed and delivered by the City of Scandia, Minnesota (the "Issuer"), in connection with the issuance of its \$ \_\_\_\_\_ General Obligation Bonds, Series 2024A (the "Bonds"). The Bonds are being issued pursuant to a Resolution adopted on May 1, 2024 (the "Resolution"). Pursuant to the Resolution and this Disclosure Undertaking, the Issuer covenants and agrees as follows:

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

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

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

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

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

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

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

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

"MSRB" shall mean the Municipal Securities Rulemaking Board.

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

"Official Statement" shall be the Official Statement dated \_\_\_\_\_, 2024, prepared in connection with the Bonds.

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

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

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

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

### SECTION 3. Provision of Annual Reports.

A. Beginning in connection with the Fiscal Year ending on December 31, 2024, the Issuer shall, or shall cause the Dissemination Agent to provide, at least annually to the MSRB, by filing at [www.emma.msrb.org](http://www.emma.msrb.org), together with such identifying information as prescribed by the MSRB, its Audited Financial Statements for the most recent Fiscal Year, which is the only financial information or operating data which is customarily prepared by the Issuer and publicly available, by not later than December 31, 2025, and by December 31 of each year thereafter.

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

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

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



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

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

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

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

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

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

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

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

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

Dated: May 22, 2024.

CITY OF SCANDIA, MINNESOTA

By \_\_\_\_\_  
Its Mayor

By \_\_\_\_\_  
Its City Clerk

**TERMS OF PROPOSAL**

**\$4,135,000\* GENERAL OBLIGATION BONDS, SERIES 2024A  
CITY OF SCANDIA, MINNESOTA**

Proposals for the purchase of \$4,135,000\* General Obligation Bonds, Series 2024A (the "Bonds") of the City of Scandia, Minnesota (the "City") will be received at the offices of Ehlers and Associates, Inc. ("Ehlers"), 3060 Centre Pointe Drive, Roseville, Minnesota 55113-1105, municipal advisors to the City, until 10:30 A.M., Central Time, and **ELECTRONIC PROPOSALS** will be received via [bondsale@ehlers-inc.com](mailto:bondsale@ehlers-inc.com) or **PARITY**, in the manner described below, until 10:30 A.M. Central Time, on May 1, 2024, at which time they will be opened, read and tabulated. The proposals will be presented to the City Council for consideration for award by resolution at a meeting to be held at 6:30 P.M., Central Time, on the same date. The proposal offering to purchase the Bonds upon the terms specified herein and most favorable to the City will be accepted unless all proposals are rejected.

**AUTHORITY; PURPOSE; SECURITY**

The Bonds are being issued pursuant to Minnesota Statutes, Sections 469.1814 through 469.1815, as amended, and 475.58, subd. 3b, and Chapter 475, as amended, by the City, to finance the 2024 Street Improvement Project described in the City's Five-Year Street Reconstruction & Overlay Plan, dated March 19, 2024 and the 2024 Crack Fill & Seal Coat Project. The Bonds will be general obligations of the City for which its full faith and credit and taxing powers are pledged.

**DATES AND MATURITIES**

The Bonds will be dated May 22, 2024, will be issued as fully registered Bonds in the denomination of \$5,000 each, or any integral multiple thereof, and will mature on February 1 as follows:

<u>Year</u>	<u>Amount*</u>	<u>Year</u>	<u>Amount*</u>	<u>Year</u>	<u>Amount*</u>
2026	\$220,000	2031	\$255,000	2036	\$295,000
2027	225,000	2032	260,000	2037	310,000
2028	230,000	2033	275,000	2038	320,000
2029	245,000	2034	280,000	2039	335,000
2030	250,000	2035	290,000	2040	345,000

**ADJUSTMENT OPTION**

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

**TERM BOND OPTION**

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

## INTEREST PAYMENT DATES AND RATES

Interest will be payable on February 1 and August 1 of each year, commencing February 1, 2025, to the registered owners of the Bonds appearing of record in the bond register as of the close of business on the 15th day (whether or not a business day) of the immediately preceding month. Interest will be computed upon the basis of a 360-day year of twelve 30-day months and will be rounded pursuant to rules of the Municipal Securities Rulemaking Board. **The rate for any maturity may not be more than 1.00% less than the rate for any preceding maturity. (For example, if a rate of 4.50% is proposed for the 2026 maturity, then the lowest rate that may be proposed for any later maturity is 3.50%.)** All Bonds of the same maturity must bear interest from date of issue until paid at a single, uniform rate. Each rate must be expressed in an integral multiple of 5/100 or 1/8 of 1%.

## PAYING AGENT

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

## BOOK-ENTRY-ONLY FORMAT

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

## OPTIONAL REDEMPTION

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

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

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

## DELIVERY

On or about May 22, 2024, the Bonds will be delivered without cost to the winning bidder at DTC. On the day of closing, the City will furnish to the winning bidder the opinion of bond counsel hereinafter described, an arbitrage certification, and certificates verifying that no litigation in any manner questioning the validity of the Bonds is then pending or, to the best knowledge of officers of the City, threatened. Payment for the Bonds must be received by the City at its designated depository on the date of closing in immediately available funds.

## LEGAL OPINION

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

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

## STATEMENT REGARDING BOND COUNSEL PARTICIPATION

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

## SUBMISSION OF PROPOSALS

Proposals must not be for less than \$4,085,380 plus accrued interest on the principal sum of \$4,135,000 from date of original issue of the Bonds to date of delivery. Prior to the time established above for the opening of proposals, interested parties may submit a proposal as follows:

- 1) Electronically to [bondsale@ehlers-inc.com](mailto:bondsale@ehlers-inc.com); or
- 2) Electronically via **PARITY** in accordance with this Terms of Proposal until 10:30 A.M. Central Time, but no proposal will be received after the time for receiving proposals specified above. To the extent any instructions or directions set forth in **PARITY** conflict with this Terms of Proposal, the terms of this Terms of Proposal shall control. For further information about **PARITY**, potential bidders may contact IHS Markit (now part of S&P Global) at <https://ihsmarkit.com/products/municipal-issuance.html> or via telephone (844) 301-7334.

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

**A good faith deposit ("Deposit") in the amount of \$82,700 shall be made by the winning bidder by wire transfer of funds. Such Deposit shall be received by Ehlers no later than two hours after the proposal opening time. Wire transfer instructions will be provided to the winning bidder by Ehlers after the tabulation of proposals.** The City reserves the right to award the Bonds to a winning bidder whose wire transfer is initiated but not received by such time provided that such winning bidder's federal wire reference number has been received by such time. In the event the Deposit is not received as provided above, the City may award the Bonds to the bidder submitting the next best proposal provided such bidder agrees to such award. The Deposit will be retained by the City as liquidated damages if the proposal is accepted and the Purchaser fails to comply therewith.

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

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

### **AWARD**

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

### **BOND INSURANCE**

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

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

### **CUSIP NUMBERS**

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

### **QUALIFIED TAX-EXEMPT OBLIGATIONS**

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

### **CONTINUING DISCLOSURE**

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

### **NEW ISSUE PRICING**

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

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

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

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

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

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

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

- (1) the close of the fifth (5<sup>th</sup>) business day after the sale date; or
- (2) the date on which the underwriters have sold at least 10% of that maturity of the Bonds to the public at a price that is no higher than the initial offering price to the public.

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

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

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

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

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

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

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

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

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

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

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



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

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

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

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

### **PRELIMINARY OFFICIAL STATEMENT**

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

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

By Order of the City Council

City of Scandia, Minnesota

# PROPOSAL FORM

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

May 1, 2024

RE: \$4,135,000\* General Obligation Bonds, Series 2024A (the "Bonds")

DATED: May 22, 2024

For all or none of the above Bonds, in accordance with the Terms of Proposal and terms of the Global Book-Entry System (unless otherwise specified by the Purchaser) as stated in this Official Statement, we will pay you \$ \_\_\_\_\_ (not less than \$4,085,380) plus accrued interest to date of delivery for fully registered Bonds bearing interest rates and maturing in the stated years as follows:

_____ % due	2026	_____ % due	2031	_____ % due	2036
_____ % due	2027	_____ % due	2032	_____ % due	2037
_____ % due	2028	_____ % due	2033	_____ % due	2038
_____ % due	2029	_____ % due	2034	_____ % due	2039
_____ % due	2030	_____ % due	2035	_____ % due	2040

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

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

**A good faith deposit ("Deposit") in the amount of \$82,700 shall be made by the winning bidder by wire transfer of funds. Such Deposit shall be received by Ehlers no later than two hours after the proposal opening time. Wire transfer instructions will be provided to the winning bidder by Ehlers after the tabulation of proposals.** The City reserves the right to award the Bonds to a winning bidder whose wire transfer is initiated but not received by such time provided that such winning bidder's federal wire reference number has been received by such time. In the event the Deposit is not received as provided above, the City may award the Bonds to the bidder submitting the next best proposal provided such bidder agrees to such award. The Deposit will be retained by the City as liquidated damages if the proposal is accepted and the Purchaser fails to comply therewith. We agree to the conditions and duties of Ehlers and Associates, Inc., as escrow holder of the Deposit, pursuant to the Terms of Proposal. This proposal is for prompt acceptance and is conditional upon delivery of said Bonds to The Depository Trust Company, New York, New York, in accordance with the Terms of Proposal. Delivery is anticipated to be on or about May 22, 2024.

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

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

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

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

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

Account Manager: \_\_\_\_\_ By: \_\_\_\_\_  
Account Members:

**Award will be on a true interest cost basis.** According to our computations (the correct computation being controlling in the award), the total dollar interest cost (including any discount or less any premium) computed from May 22, 2024 of the above proposal is \$ \_\_\_\_\_ and the true interest cost (TIC) is \_\_\_\_\_ %.

The foregoing offer is hereby accepted by and on behalf of the City Council of the City of Scandia, Minnesota, on May 1, 2024.

By: \_\_\_\_\_ By: \_\_\_\_\_  
Title: \_\_\_\_\_ Title: \_\_\_\_\_