

**City of Nowthen
Anoka County, Minnesota**

Basic Financial Statements

December 31, 2023

**City of Nowthen
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**City of Nowthen
Elected Officials and Administration
December 31, 2023**

<u>Elected Officials</u>	<u>Position</u>	<u>Term Expires</u>
Jeff Pilon	Mayor	December 31, 2024
Shanni Fladeno	Council Member	December 31, 2026
Dan Breyen	Council Member	December 31, 2026
Jason Alders	Council Member	December 31, 2024
Mary Rainville	Council Member	December 31, 2024

Administration

Scott Lehner	City Administrator
Natalie Johnson	City Clerk
Joe Glaze	Public Works Supervisor



Independent Auditor's Report

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

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Nowthen, Minnesota, as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the City of Nowthen's basic financial statements as listed in the Table of Contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Nowthen, Minnesota, as of December 31, 2023, and the respective changes in financial position and, where applicable, cash flows thereof, and the budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the 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 - Prior Period Adjustment

The City has recorded a prior period adjustment that is described in note 10 of the financial statements. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, which follows this report letter, and Required Supplementary Information as 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 (GASB), 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 supplementary information identified in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 24, 2024, on our consideration of the City of Nowthen'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 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 Nowthen's internal control over financial reporting and compliance.

BerganKDV, Ltd.

Minneapolis, Minnesota
April 24, 2024

City of Nowthen Management's Discussion and Analysis

As management of the City of Nowthen, Minnesota, (the City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2023.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$6,854,494 (net position). Of this amount, \$3,888,336 (unrestricted net position) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net position decreased by \$126,955 as a result of expenses in excess of revenues.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$4,309,037, a decrease of \$349,048 in comparison with the prior year. Approximately 29.3 percent of this total amount, \$1,260,995, is either nonspendable or restricted for specific purposes. The remaining fund balance was committed by City Council, assigned or unassigned.
- At the end of the current fiscal year, unrestricted fund balance for the General fund was \$1,221,668 or 58.4 percent of 2023 General fund expenditures and 50 percent of the 2024 General fund budget.
- The City's total long-term debt decreased \$385,137 during the current fiscal year. The key factor of this decrease was due to regularly scheduled principal payments.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplemental information in addition to the basic financial statements themselves. The following chart shows how the various parts of this annual report are arranged and related to one another:

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

**City of Nowthen
Management's Discussion and Analysis**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

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

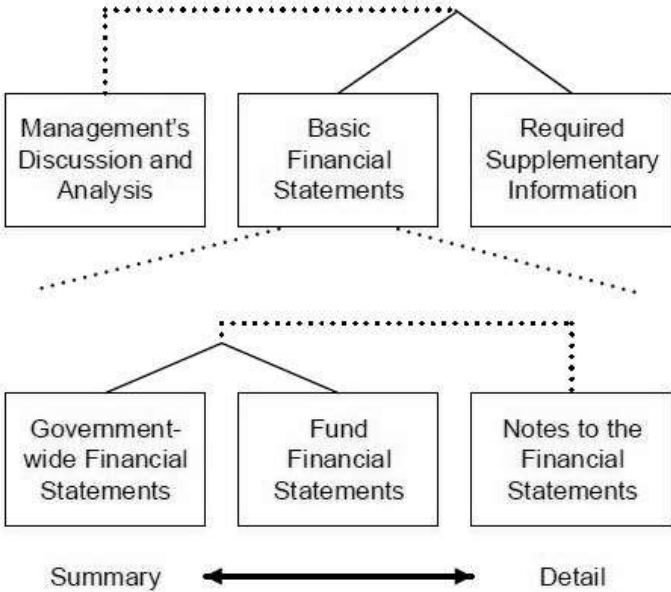


Figure 2 summarizes the major features of the City's financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the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

**City of Nowthen
Management's Discussion and Analysis**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

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

	Government-wide Statements	Fund Financial Statements Governmental Funds
Scope	Entire City government and the City's component units	The activities of the City, such as police, fire, and parks
Required financial statements	<ul style="list-style-type: none"> • Statement of Net Position • Statement of Activities 	<ul style="list-style-type: none"> • Balance Sheet • Statement of Revenues, Expenditures, and Changes in Fund Balances
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included
Type of deferred outflows/inflows of resources information	All deferred outflows/inflows of resources, regardless of when cash is received or paid	Only deferred outflows of resources expected to be used up and deferred inflows or resources that come due during the year or soon thereafter; no capital assets included
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter

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

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

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

City of Nowthen Management's Discussion and Analysis

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Government-wide Financial Statements. (Continued) Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenue (*governmental activities*). The governmental activities of the City include general government, public safety, public works, culture and recreation, economic development, and interest on long-term debt.

The government-wide financial statements include not only the City itself (known as the *primary government*), but also a legally separate Economic Development Authority (EDA) for which the City is financially accountable. Financial information for this *component unit* is not reported separately from the financial information presented for the primary government itself.

The government-wide financial statements start on page 18 of this report.

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

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

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

The City maintains a General Fund and 15 other individual governmental funds. There are 6 Debt Service Funds, there are 6 Capital Project funds, and there are 3 Special Revenue funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General fund, Equipment Fund, Street Renewal Fund, 2019A Improvement Bond Fund, and 2021A G.O. Improvement Bond Fund. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements or schedules* elsewhere in this report.

City of Nowthen Management's Discussion and Analysis

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Governmental Funds. (Continued) The City adopts an annual appropriated budget for the General fund. Budgetary comparison statements have been provided for the General fund to demonstrate compliance with their budget.

The basic governmental fund financial statements start on page 20 of this report.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements start on page 29 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information concerning the City's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found on page 54 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented following the notes to the financial statements. Combining and individual fund financial statements and schedules start on page 60 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$6,854,494 at the close of the most recent fiscal year.

The largest portion of the City's net position (56.7 percent) is *unrestricted net position* (\$3,888,337) and may be used to meet the City's ongoing obligations to citizens and creditors.

Also, (31.8 percent) of the City's net position is its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**City of Nowthen
Management's Discussion and Analysis**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

An additional portion of the City's net position, (\$784,623) represents resources that are subject to external restrictions on how they may be used. At the end of the current fiscal year, the City is able to report positive balances in all categories of net position.

City of Nowthen's Summary of Net Position

	Governmental Activities		
	2023	2022	Increase (Decrease)
Assets			
Current and other assets	\$ 5,082,775	\$ 5,526,113	\$ (443,338)
Capital Assets	5,583,117	5,695,717	(112,600)
Total Assets	<u>10,665,892</u>	<u>11,221,830</u>	<u>(555,938)</u>
Deferred Outflows of Resources			
Deferred outflows of resources related to pension	155,242	111,807	43,435
Liabilities			
Noncurrent liabilities outstanding	3,322,910	3,707,181	(384,271)
Other liabilities	523,117	622,527	(99,410)
Total Liabilities	<u>3,846,027</u>	<u>4,329,708</u>	<u>(483,681)</u>
Deferred Inflows of Resources			
Deferred inflows of resources related to pensions	18,054	18,054	-
Deferred inflows of resources related to leases	23,200	36,258	(13,058)
Total Deferred Inflows of Resources	<u>41,254</u>	<u>1,822,103</u>	<u>(1,780,849)</u>
Net Position			
Net investment in capital Assets	2,181,535	1,912,062	269,473
Restricted for			
Debt Service	521,893	597,050	(75,157)
Public safety	198,190	-	198,190
Other purposes	64,540	8,646	55,894
Unrestricted	<u>4,414,757</u>	<u>4,414,757</u>	<u>-</u>
Total Net Position	<u>\$ 7,380,915</u>	<u>\$ 6,932,515</u>	<u>\$ 448,400</u>

**City of Nowthen
Management's Discussion and Analysis**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

Governmental Activities. Governmental activities decreased the City's net position by \$78,021. Key elements of this decrease are as follows:

City of Nowthen's Changes in Net Position

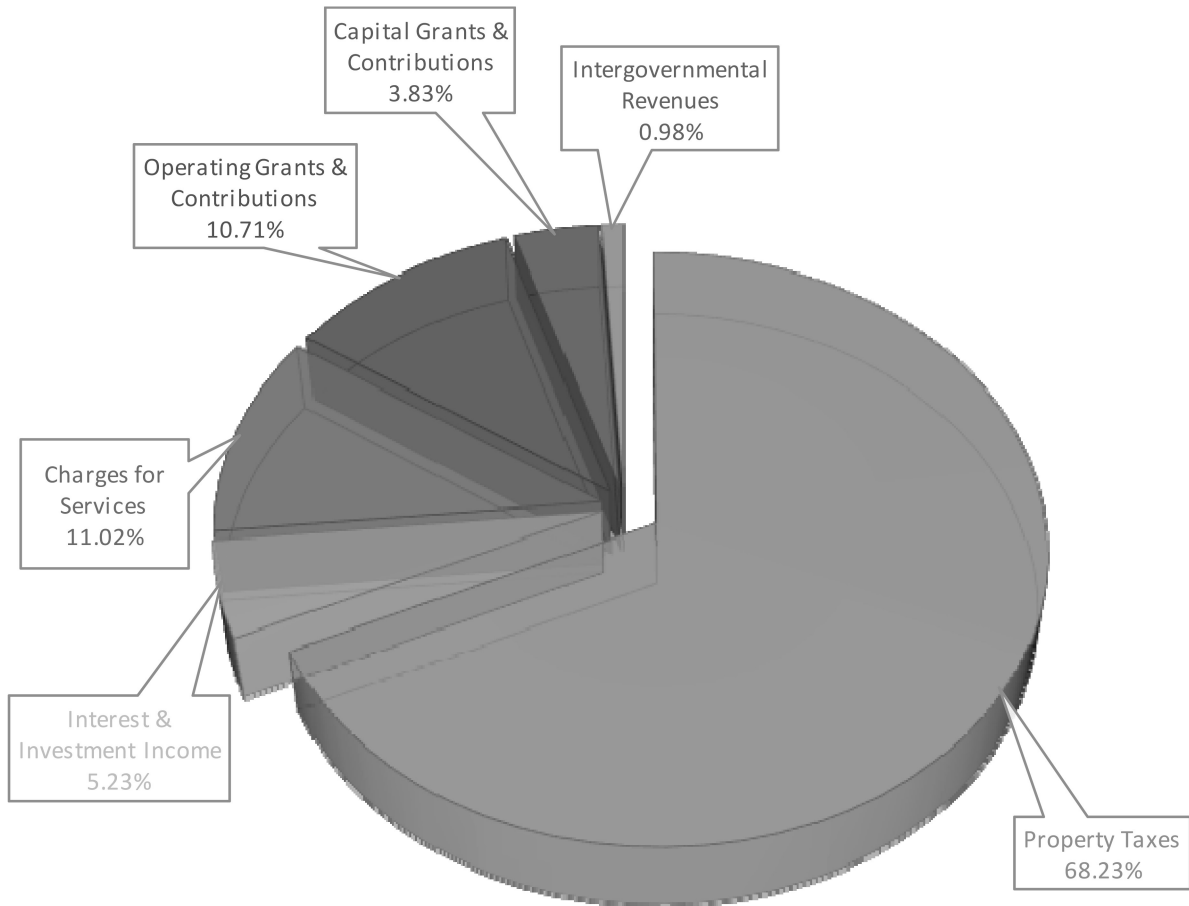
	Governmental Activities		
	2023	2022	Increase (Decrease)
Revenues			
Program Revenues			
Charges for services	\$ 292,089	\$ 334,729	\$ (42,640)
Operating Grants and contributions	284,052	91,904	192,148
Capital grants and contributions	101,590	65,268	36,322
General Revenues			
Taxes			
Property Taxes	1,809,063	1,694,313	114,750
Intergovernmental Revenues Not Restricted to Specific Programs	26,095	328,757	(302,662)
Interest and investment income	138,659	55,894	82,765
Other general revenue	7,500	-	7,500
Total Revenues	<u>2,659,048</u>	<u>2,570,865</u>	<u>88,183</u>
Expenditures			
General government	872,378	872,022	356
Public Safety	891,573	984,018	(92,445)
Public works	885,573	478,179	407,394
Parks and recreation	63,848	64,723	(875)
Sanitation	15,051	-	15,051
Interest and fiscal charges	57,480	58,959	(1,479)
Total Expenditures	<u>2,785,903</u>	<u>2,457,901</u>	<u>328,002</u>
Change in Net Position	(126,855)	112,964	(239,819)
Net Position, January 1, as restated	<u>6,981,349</u>	<u>6,816,551</u>	<u>164,798</u>
Net Position, December 31	<u>\$ 6,854,494</u>	<u>\$ 6,929,515</u>	<u>\$ (75,021)</u>

**City of Nowthen
Management's Discussion and Analysis**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

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

Revenues by Source - Governmental Activities



FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the year.

Governmental Funds. As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$4,309,037, a decrease of \$300,214 in comparison with the prior year. Approximately 28.1 percent of this total amount, \$1,211,464, constitutes unassigned fund balance, which is available for spending at the City's discretion. The remainder of fund balance is not available for new spending because it is either 1) nonspendable (\$448,421), 2) restricted (\$812,574), 3) committed (\$29,170) or 4) assigned (\$1,807,408) for specific purposes.

**City of Nowthen
Management's Discussion and Analysis**

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

Governmental Funds. (Continued). The General fund had a total fund balance of \$1,458,779 at the current year end. The fund balance of the City's General fund increased \$38,773 during the current fiscal year. See the below "General Fund Budgetary Highlights" for more detail information.

The Equipment fund has a fund balance of \$774,870. A portion of the fund balance (\$409,500) is nonspendable as it is the prepayment of fire equipment to be delivered in the future. The balance is assigned (\$365,370) for future equipment needs. The fund balance decreased \$218,316 during the current fiscal year due to capital outlay for fire and public works equipment expenditures.

The Street Renewal fund has a fund balance of \$947,217 all of which is assigned for future street improvements. The fund balance decreased \$141,637 during the current fiscal year. This decrease is due to capital expenditures for culvert and street improvements in 2023.

The 2019A Improvement bond fund has a fund balance of \$295,927 all of which is restricted for future debt service payments. The fund balance decreased \$71,112. This decrease is due to principal and interest payments in 2023.

The 2021A Improvement bond fund has a fund balance of \$252,262 all of which is restricted for future debt service payments. The fund balance increased \$15,688. This fund received a transfer from the equipment fund to help with debt service requirements.

General Fund Budgetary Highlights

Actual revenues were \$245,226 over budget and expenditures were \$38,882 under budget; along with transfers, other financing sources and prior period adjustments, the end result was an increase in fund balance of \$38,773.

Revenue highlights include:

- General property taxes revenues ended under budget by \$43,220 due to uncollected tax revenues in 2023.
- Intergovernmental revenue was \$262,072 more than budget due to not budgeting for Fire Relief Aid (\$38,110), Public Safety Aid (\$198,190) and more local government aid than anticipated.
- Interest income revenues were more than budget by \$47,261 as a result of the improved interest rates in 2023.
- Special assessments were \$3,649 over budget due to unexpected collections for assessed fees.

Expenditure highlights include:

- Public Safety ended 2023 over budget by \$4,882 due to the following factor:
 - Increased building and inspections services for 2023.
 - Higher than average training expenditures in Fire.

**City of Nowthen
Management's Discussion and Analysis**

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS (CONTINUED)

General Fund Budgetary Highlights (Continued)

- Public works was also over budget \$3,920. This was due to under budgeting for anticipated wages and benefits for public works.
- General Government was under budget \$13,175. This was due to an unfilled position in Administration.
- Parks and recreation ended under budget \$34,509. This favorable result was from less seasonal employees needed for park maintenance in 2023 and not contingency expenditures.

Overall, the General Fund saw an increase in its fund balance. This was driven by excess revenue and conservative spending.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets. The City's investment in capital assets for its governmental activities as of December 31, 2023, amounts to \$5,445,367 (net of accumulated depreciation).

Major public project capital asset events during the current fiscal year were as follows:

- Completion of the 2023 Street Improvement projects
- Office and town hall improvements.
- Park fencing and culvert improvements.
- Purchase of equipment for the Fire Department
- Purchase of vehicle and equipment for Public Works

Additional information on the City's capital assets can be found in Note 5 starting on page 43 of this report.

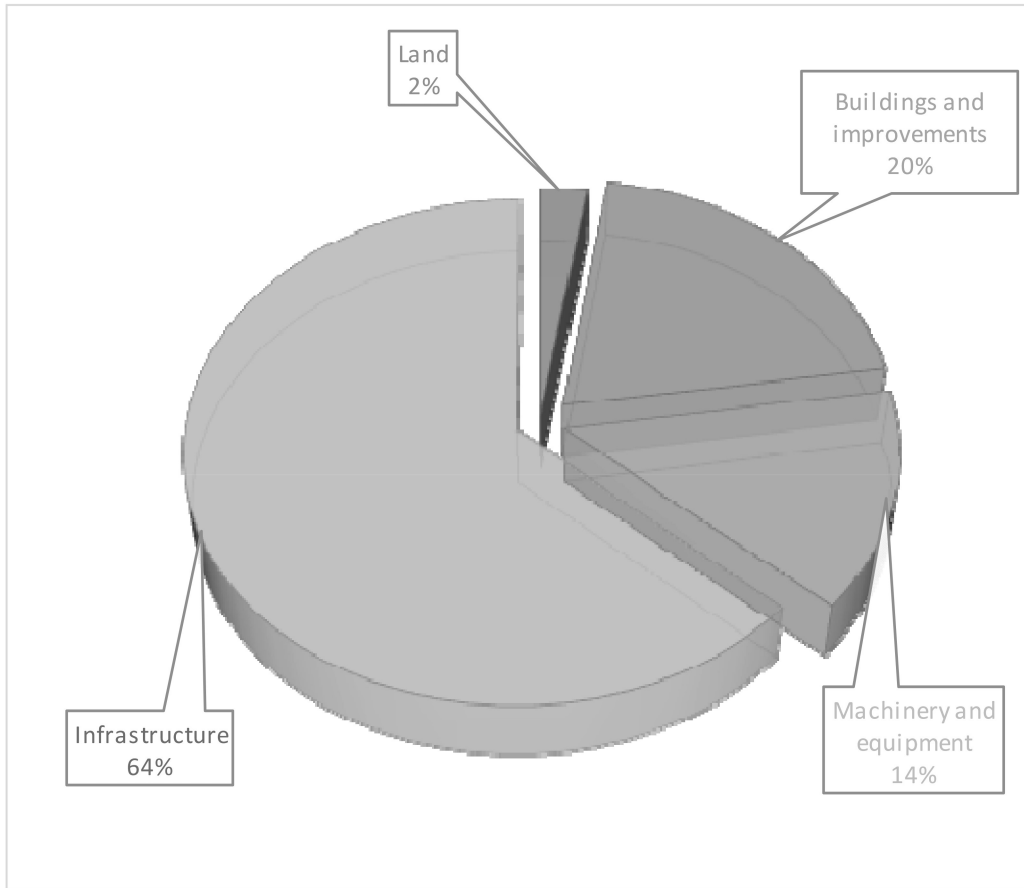
**City of Nowthen's Capital Assets
(Net of Depreciation)**

	Governmental Activities		
	2023	2022	Increase (Decrease)
Land	\$ 137,750	\$ 137,750	\$ -
Construction in Progress	-	-	-
Buildings and improvements	1,121,894	1,139,012	(17,118)
Machinery and equipment	779,576	727,479	52,097
Infrastructure	3,543,897	3,691,476	(147,579)
Total	\$ 5,583,117	\$ 5,695,717	\$ (112,600)

**City of Nowthen
Management's Discussion and Analysis**

CAPITAL ASSET AND DEBT ADMINISTRATION (CONTINUED)

**City of Nowthen's Capital Assets
(Net of Depreciation)**



Long-term Debt. At the end of the current fiscal year, the City had total bonded debt outstanding of \$3,305,000. While all of the City's bonds have revenue streams, they are all backed by the full faith and credit of the City. The City also had unamortized bond premium of \$96,582.

City of Nowthen's Outstanding Debt

	Governmental Activities		
	2023	2022	Increase (Decrease)
General Obligation Bonds and Notes	\$ 3,401,582	\$ 3,783,655	\$ (382,073)

**City of Nowthen
Management's Discussion and Analysis**

CAPITAL ASSET AND DEBT ADMINISTRATION (CONTINUED)

Long-term Debt. (Continued) The City's total debt decreased \$385,137 during the current fiscal year due to annually scheduled debt payments, amortized premium and reduced compensated absences.

Minnesota statutes limit the amount of net general obligation debt a City may issue to 3 percent of the market value of taxable property within the City. Net debt is debt payable solely from ad valorem taxes. The current debt limitation for the City is \$25,133,634. The City is under the statutory debt limit as of December 31, 2023.

Additional information on the City's long-term debt can be found in Note 6 starting on page 44 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- In July 2023, the federal reserve increased interest rates and the economy was in recovery from the Coronavirus contraction. Also in 2023, the State of Minnesota passed a bill which included additional aid for assisting local governments with funding for public safety expenditures.
- The City's Tax Levy will increase to \$1,96,176 in 2024, an increase of 5.35%. However, due to a higher tax capacity and some new development, the tax capacity rate stayed about the same at 20.78 percent.
- The City will receive Local Government Aid in 2024.
- Inflation rates moderated to 3.4% in 2023.

All these factors were considered in the preparation of the City's budget for the 2024 year.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Nowthen, Finance Department, 8188 199th Ave NW, Nowthen, MN 55330.

BASIC FINANCIAL STATEMENTS

City of Nowthen
Statement of Net Position
December 31, 2023

	<u>Governmental Activities</u>
Assets	
Cash and investments (including cash equivalents)	\$ 3,827,436
Receivables	
Accounts receivable	11,489
Lease receivable	23,201
Interest receivable	62,557
Due from other governments	40,881
Taxes receivable	
Unremitted	43,297
Delinquent	16,699
Special assessments receivable	
Unremitted	5,121
Deferred	603,673
Prepaid items	448,421
Capital assets not being depreciated	
Land	137,750
Capital assets (net of accumulated depreciation)	
Buildings and improvements	1,121,894
Machinery and equipment	779,576
Infrastructure	3,543,897
Total assets	<u>10,665,892</u>
Deferred Outflows of Resources	
Deferred outflows of resources related to City pensions	<u>155,242</u>
Total assets and deferred outflows of resources	<u>\$ 10,821,134</u>
Liabilities	
Accounts payable	\$ 98,835
Salaries and benefits payable	20,781
Interest payable	27,951
Deposits payable	10,550
Bonds payable, net	
Payable within one year	365,000
Payable after one year	3,036,582
Compensated absences payable	
Payable after one year	29,101
Net pension liability	<u>257,227</u>
Total liabilities	<u>3,846,027</u>
Deferred Inflows of Resources	
Deferred inflows related to City pensions	97,413
Deferred inflows related to Leases	<u>23,200</u>
Total deferred inflows of resources	<u>120,613</u>
Net Position	
Net investment in capital assets	2,181,535
Restricted	
Debt service	521,893
Public safety	198,190
Other purposes	64,540
Unrestricted	<u>3,888,336</u>
Total net position	<u>6,854,494</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 10,821,134</u>

See notes to basic financial statements.

City of Nowthen
Statement of Activities
Year Ended December 31, 2023

Functions/Programs	Program Revenue			Capital Grants and Contributions	Net (Expense) Revenues and Changes in Net Position Total Governmental Activities
Expenses	Charges for Services	Operating Grants and Contributions	Contributions	Total	Total
Governmental activities					
General government	\$ 872,378	\$ 38,765	\$ 8,689	\$ 32,617	\$ (792,307)
Public safety	891,573	171,100	236,332	-	(484,141)
Public works	885,573	77,561	39,031	68,973	(700,008)
Sanitation	15,051	-	-	-	(15,051)
Parks and recreation	63,848	4,663	-	-	(59,185)
Interest on long-term debt	57,480	-	-	-	(57,480)
Total governmental activities	\$ 2,785,903	\$ 292,089	\$ 284,052	\$ 101,590	(2,108,172)
General revenues					
Property taxes					1,809,063
Intergovernmental					26,095
Unrestricted investment earnings					138,659
Gain on sale of capital assets					7,500
Total general revenues					1,981,317
Change in net position					(126,855)
Net position - beginning, as previously stated					6,932,515
Prior period adjustments (see note 10)					48,834
Net position - beginning, as restated					6,981,349
Net position - ending					\$ 6,854,494

See notes to basic financial statements.

City of Nowthen
Balance Sheet - Governmental Funds
December 31, 2023

	General Fund (100, 8xx)	Capital Projects		Debt Service
		Equipment Fund (701)	Street Renewal (414)	2019A Improvement Bond (315)
Assets				
Cash and investments	\$ 1,420,576	\$ 358,060	\$ 932,078	\$ 289,488
Accounts receivable	-	-	-	-
Interest receivable	24,262	7,310	15,062	5,996
Due from other funds	15,000	-	10,300	-
Due from other governments	1,910	-	-	-
Taxes receivable				
Unremitted	43,297	-	-	-
Delinquent	15,512	-	-	1,187
Special assessment receivable				
Unremitted	165	-	-	443
Deferred	13,428	-	-	210,619
Lease receivable	23,201	-	-	-
Prepaid items	38,921	409,500	-	-
Total assets	\$ 1,596,272	\$ 774,870	\$ 957,440	\$ 507,733
Liabilities				
Accounts payable	\$ 54,835	\$ -	\$ 10,223	\$ -
Due to other funds	-	-	-	-
Salaries and benefits payable	19,968	-	-	-
Deposits payable	10,550	-	-	-
Total liabilities	85,353	-	10,223	-
Deferred Inflows of Resources				
Deferred inflows of resources related to leases	23,200	-	-	-
Unavailable revenue - property taxes	15,512	-	-	1,187
Unavailable revenue - special assessments	13,428	-	-	210,619
Total deferred inflows of resources	52,140	-	-	211,806
Fund Balances				
Nonspendable	38,921	409,500	-	-
Restricted	198,190	-	-	295,927
Committed	-	-	-	-
Assigned	-	365,370	947,217	-
Unassigned	1,221,668	-	-	-
Total fund balances	1,458,779	774,870	947,217	295,927
Total liabilities, deferred inflows of resources, and fund balances	\$ 1,596,272	\$ 774,870	\$ 957,440	\$ 507,733

<u>Debt Service</u>		
<u>2021A G.O.</u>	<u>Nonmajor</u>	<u>Total</u>
<u>Improvement</u>	<u>Governmental</u>	<u>Governmental</u>
<u>Bond (320)</u>	<u>Funds</u>	<u>Funds</u>
\$ 246,494	\$ 580,740	\$ 3,827,436
-	11,489	11,489
1,255	8,672	62,557
-	-	25,300
-	38,971	40,881
-	-	43,297
-	-	16,699
4,513	-	5,121
360,047	19,579	603,673
-	-	23,201
-	-	448,421
<u>\$ 612,309</u>	<u>\$ 659,451</u>	<u>\$ 5,108,075</u>
\$ -	\$ 33,777	\$ 98,835
-	25,300	25,300
-	813	20,781
-	-	10,550
-	59,890	155,466
-	-	23,200
-	-	16,699
360,047	19,579	603,673
<u>360,047</u>	<u>19,579</u>	<u>643,572</u>
-	-	448,421
252,262	66,195	812,574
-	29,170	29,170
-	494,821	1,807,408
-	(10,204)	1,211,464
<u>252,262</u>	<u>579,982</u>	<u>4,309,037</u>
<u>\$ 612,309</u>	<u>\$ 659,451</u>	<u>\$ 5,108,075</u>

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City of Nowthen
Reconciliation of the Balance Sheet to
the Statement of Net Position - Governmental Funds
December 31, 2023

Total fund balances - governmental funds	\$ 4,309,037
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds.	
Capital assets	10,088,247
Less accumulated depreciation	(4,505,130)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.	
Long-term liabilities at year-end consist of:	
Bond principal payable	(3,305,000)
Unamortized bond premium	(96,582)
Compensated absences payable	(29,101)
Unfunded opeb liability	
Net pension liability - city pension	(257,227)
Governmental funds do not report a liability for accrued interest until due and payable.	(27,951)
Deferred outflows of resources and deferred Inflows of resources are created as a result of various differences related to pensions that are not recognized in the governmental funds.	
Deferred inflows of resources related to pensions	(97,413)
Deferred outflows of resources related to pensions	155,242
Deferred and delinquent receivables will be collected in subsequent years, but are not available enough to pay for the current period's expenditures and, therefore, are deferred in the funds.	
Property taxes	16,699
Special assessments	603,673
Total net position - governmental activities	\$ 6,854,494

City of Nowthen
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Governmental Funds
Year Ended December 31, 2023

	General Fund (100, 8xx)	Capital Projects		Debt Service
		Equipment Fund (701)	Street Renewal (414)	2019A Improvement Bond (315)
Revenues				
Property taxes	\$ 1,659,685	\$ -	\$ -	\$ (187)
Special assessments	3,649	-	-	49,897
Licenses and permits	129,332	-	-	-
Intergovernmental	262,372	-	-	-
Charges for services	115,829	-	-	-
Fines and forfeitures	9,226	-	-	-
Miscellaneous				
Investment income	53,261	11,341	30,937	11,160
Contributions and donations	-	-	-	-
Other	14,712	8,000	-	-
Total revenues	<u>2,248,066</u>	<u>19,341</u>	<u>30,937</u>	<u>60,870</u>
Expenditures				
Current				
General government	804,482	-	-	-
Public safety	789,982	-	-	-
Public works	448,930	-	-	-
Parks and recreation	48,541	-	-	-
Debt service				
Principal	-	-	-	105,000
Interest and other charges	-	-	-	28,625
Capital outlay				
General government	878	-	-	-
Public safety	-	151,307	-	-
Public works	-	-	161,866	-
Parks and recreation	-	-	-	-
Total expenditures	<u>2,092,813</u>	<u>151,307</u>	<u>161,866</u>	<u>133,625</u>
Excess of revenues over (under) expenditures	155,253	(131,966)	(130,929)	(72,755)
Other Financing Sources (Uses)				
Proceeds from sale of capital asset	-	7,500	-	-
Transfers in	1,066	-	-	1,643
Transfers out	(166,380)	(93,850)	(10,708)	-
Total other financing sources (uses)	<u>(165,314)</u>	<u>(86,350)</u>	<u>(10,708)</u>	<u>1,643</u>
Net change in fund balances	(10,061)	(218,316)	(141,637)	(71,112)
Fund Balances				
Beginning of year, as previously stated	<u>1,420,006</u>	<u>993,186</u>	<u>1,088,854</u>	<u>367,039</u>
Prior period adjustment (see note 10)	<u>48,834</u>	<u>-</u>	<u>-</u>	<u>-</u>
Beginning of year, as restated	<u>1,468,840</u>	<u>993,186</u>	<u>1,088,854</u>	<u>367,039</u>
End of year	<u>\$ 1,458,779</u>	<u>\$ 774,870</u>	<u>\$ 947,217</u>	<u>\$ 295,927</u>

Debt Service		
2021A G.O. Improvement Bond (320)	Nonmajor Governmental Funds	Total Governmental Funds
\$ 131,864	\$ (106)	\$ 1,791,256
61,591	4,601	119,738
-	-	129,332
-	39,054	301,426
-	29,702	145,531
-	-	9,226
17,393	14,567	138,659
-	32,617	32,617
-	-	22,712
<u>210,848</u>	<u>120,435</u>	<u>2,690,497</u>
-	-	804,482
-	-	789,982
-	72,987	521,917
-	-	48,541
245,000	20,000	370,000
44,010	243	72,878
-	66,349	67,227
-	-	151,307
-	6,626	168,492
-	52,219	52,219
<u>289,010</u>	<u>218,424</u>	<u>3,047,045</u>
(78,162)	(97,989)	(356,548)
-	-	7,500
93,850	177,088	273,647
-	(2,709)	(273,647)
<u>93,850</u>	<u>174,379</u>	<u>7,500</u>
15,688	76,390	(349,048)
236,574	503,592	4,609,251
-	-	48,834
<u>236,574</u>	<u>503,592</u>	<u>4,658,085</u>
<u>\$ 252,262</u>	<u>\$ 579,982</u>	<u>\$ 4,309,037</u>

City of Nowthen
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances to
the Statement of Activities - Governmental Funds
Year Ended December 31, 2023

Net change in fund balances - total governmental funds \$ (349,048)

Amounts reported for governmental activities in the Statement of Activities are different because:

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

Capital outlay	436,360
Depreciation expense	(548,960)

Compensated absences are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities.

3,064

Governmental funds recognize pension contributions as expenditures at the time of payment whereas the Statement of Activities factors in items related to pensions on a full accrual perspective.

Pension expense	(14,688)
-----------------	----------

Principal payments on long-term debt are recognized as expenditures in the governmental funds but have no impact on net position in the Statement of Activities.

370,000

Proceeds from long-term debt are recognized as an other financing source in the governmental funds but as a decrease in net position in the Statement of Activities.

Amortization of Debt Premium	12,073
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Interest on long-term debt in the Statement of Activities differs from the amount reported in the Governmental Funds because interest is recognized as an expenditure in the Funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.

3,325

Certain revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.

Deferred special assessments	(46,874)
------------------------------	----------

Delinquent receivables will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are not revenues in the funds.

Delinquent property taxes	7,893
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Change in net position of governmental activities	\$ (126,855)
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City of Nowthen
Statement of Revenues, Expenditures, and
Changes in Fund Balance -
Budget and Actual - General Fund
Year Ended December 31, 2023

	Budgeted Amounts		Actual	Variance with Final Budget - Over (Under)
	Original	Final		
Revenues				
Property taxes	\$ 1,702,905	\$ 1,702,905	\$ 1,659,685	\$ (43,220)
Special assessments	-	-	3,649	3,649
Licenses and permits	117,550	117,550	129,332	11,782
Intergovernmental	300	300	262,372	262,072
Charges for services	135,685	135,685	115,829	(19,856)
Fines and forfeitures	8,900	8,900	9,226	326
Miscellaneous				
Investment income	6,000	6,000	53,261	47,261
Contributions and donations	30,000	30,000	-	(30,000)
Other	1,500	1,500	14,712	13,212
Total revenues	<u>2,002,840</u>	<u>2,002,840</u>	<u>2,248,066</u>	<u>245,226</u>
Expenditures				
Current				
General government	813,535	813,535	804,482	(9,053)
Public safety	785,100	785,100	789,982	4,882
Public works	445,010	445,010	448,930	3,920
Parks and recreation	83,050	83,050	48,541	(34,509)
Capital outlay				
General government	5,000	5,000	878	(4,122)
Total expenditures	<u>2,131,695</u>	<u>2,131,695</u>	<u>2,092,813</u>	<u>(38,882)</u>
Excess of revenues over (under) expenditures	(128,855)	(128,855)	155,253	284,108
Other Financing Sources (Uses)				
Transfers in	1,065	1,065	1,066	1
Transfers out	(75,000)	(166,380)	(166,380)	-
Total other financing sources (uses)	<u>(73,935)</u>	<u>(165,315)</u>	<u>(165,314)</u>	<u>1</u>
Net change in fund balance	<u>\$ (202,790)</u>	<u>\$ (294,170)</u>	<u>(10,061)</u>	<u>\$ 284,109</u>
Fund Balance				
Beginning of year, as previously stated			1,420,006	
Prior period adjustment (see note 10)			48,834	
Beginning of year, as restated			<u>1,468,840</u>	
End of year			<u>\$ 1,458,779</u>	

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City of Nowthen
Notes to Basic Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Nowthen (the "City") is a statutory city governed by an elected mayor and four council members. The accompanying financial statements present the government entities for which the government is considered to be financially accountable.

The financial statements present the City and its component units. The City includes all funds, organizations, institutions, agencies, departments, and offices that are not legally separate from such. Component units are legally separate organizations for which the elected officials of the City are financially accountable and are included within the basic financial statements of the City because of the significance of their operational or financial relationships with the City.

The City is considered financially accountable for a component unit if it appoints a voting majority of the organization's governing body and it is able to impose its will on the organization by significantly influencing the programs, projects, activities, or level of services performed or provided by the organization, or there is a potential for the organization to provide specific financial benefits to or impose specific financial burdens on, the City.

As a result of applying the component unit definition criteria above, certain organizations have been defined and are presented in this report as follows:

Blended Component Units - Reported as if they were part of the City.

Joint Ventures and Jointly Governed Organizations - The relationship of the City with the entity is disclosed.

For each of the categories above, the specific entities are identified as follows:

1. Joint Ventures and Jointly Governed Organizations

The Upper Rum River Watershed Management Organization (URRWMO)

The Upper Rum River Watershed Management Organization (URRWMO) is a joint powers organization including the Cities of St. Francis, Oak Grove, Nowthen, Bethel, and portions of the City of East Bethel. A small corner of the City of Ham Lake also falls within the URRWMO. The URRWMO Board is made up of representatives from each of these cities and townships. The organization seeks to maintain the quality of area lakes, rivers, streams, groundwater, and other water resources across municipal boundaries. Additional financial information can be obtained in the URRWMO's annual reports, which are available at <http://www.urrwmo.org/watershed-plans-reports>.

2. Blended Component Unit

Economic Development Authority

The City of Nowthen Economic Development Authority (EDA) is a legal entity separate from the City. Although legally separate, the City of Nowthen EDA is reported as if it were part of the primary government because it provides services exclusively for the City. Separate financial statements are not prepared for the City of Nowthen EDA.

City of Nowthen
Notes to Basic Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the City. Governmental activities, which normally are supported by taxes and intergovernmental revenues.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Interest on general long-term debt is considered an indirect expense and is reported separately in the Statement of Activities. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues. Internally dedicated revenues are reported as general revenues rather than program revenues.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. Aggregate information for the remaining nonmajor governmental funds is reported in a single column in the fund financial statements.

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

City of Nowthen
Notes to Basic Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus Basis, of Accounting, and Financial Statement Presentation (Continued)

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

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

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are also recorded as unearned revenue. On the modified accrual basis, receivables that will not be collected within the available period have been reported as deferred inflow of resources.

Description of Funds:

Major Governmental Funds:

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

Equipment Fund - This fund is used to account for funds set aside primarily from taxes and used for the replacement of the City's capital assets.

Street Renewal Fund - This fund is used to account for funds set aside from property taxes for the construction and seal coating of City roads.

2019A Improvement Bond - This fund is used to collect resources for, and make payments on, this bond.

2021A G.O. Improvement Bond - This fund is used to collect resources for, and make payments on, this bond.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are transactions that would be treated as revenues, expenditures, or expenses if they involved external organizations, such as buying goods and services or payments in lieu of taxes, are similarly treated when they involve other funds of the City as well as charges between the City's utility functions and various other functions of the City.

City of Nowthen
Notes to Basic Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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

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

1. Deposits and Investments

Cash and investments include balances from all funds that are combined and invested to the extent available in various securities as authorized by state law. Earnings from the pooled investments are allocated to the individual funds based on the average participation in cash and investment balances.

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Minnesota Statutes authorizes the City to invest in obligations of the U.S. Treasury, agencies and instrumentalities, shares of investment companies whose only investments are in the aforementioned securities, obligations of the State of Minnesota or its municipalities, bankers' acceptances, future contracts, repurchase and reverse repurchase agreements, and commercial paper of the highest quality with a maturity of no longer than 270 days and in the Minnesota Municipal Investment Pool.

Certain investments for the City are reported at fair value as disclosed in Note 3. The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The Hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

In accordance with GASB Statement No. 79, the Minnesota Municipal Investment Pool securities are valued at amortized cost, which approximates fair value. There are no restrictions or limitations on withdrawals from the 4M Liquid Asset Fund. Investments in the 4M Plus must be deposited for a minimum of 14 calendar days. Withdrawals prior to the 14-day restriction period will be subject to a penalty equal to seven days interest on the amount withdrawn. Seven days' notice of redemption is required for withdrawals of investments in the 4M Term Series withdrawn prior to the maturity date of that series. A penalty could be assessed as necessary to recoup the Series for any charges, losses, and other costs attributable to the early redemption.

City of Nowthen
Notes to Basic Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

2. Property Taxes

The City Council annually adopts a tax levy and certifies it to Anoka County (the "County") in December (levy/assessment date) of each year for collection in the following year. The County is responsible for billing and collecting all property taxes for itself, the City, the local school district, and other taxing authorities. Such taxes become a lien on January 1 and are recorded as receivables by the City at that date. Real property taxes are payable (by property owners) on May 15 and October 15 of each calendar year. Personal property taxes are payable by taxpayers on February 28 and June 30 of each year. These taxes are collected by the County and remitted to the City on or before July 7 and December 2 of the same year. Delinquent collections for November and December are received the following January. The City has no ability to enforce payment of property taxes by property owners. The County possesses this authority.

The City recognizes property tax revenue in the period for which the taxes were levied. Uncollectible property taxes are not material and have not been reported.

The City recognizes property tax revenue when it becomes both measurable and available to finance expenditures of the current period. In practice, current and delinquent taxes and state credits received by the City in July, December, and January are recognized as revenue for the current year. Taxes collected by the County by December 31 (remitted to the City the following January) and taxes and credits not received at year end are classified as delinquent and due from County taxes receivable. The portion of delinquent taxes not collected by the City in January is fully offset by deferred inflows of resources because they are not available to finance current expenditures.

3. 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 *Minnesota Statutes*. These assessments are collectible by the City over a term usually consistent with the terms 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.

Once a special assessment roll is adopted, the amount attributed to each parcel is a lien upon that property until full payment is made or the amount is determined to be excessive by the City.

If special assessments are allowed to go delinquent, the property is subject to tax forfeit sale. Proceeds of sales from tax forfeit properties are remitted to the City in payment of delinquent special assessments. Pursuant to *Minnesota Statutes*, a property shall be subject to a tax forfeit sale after three years unless it is homesteaded, agricultural, or seasonal recreational land in which event the property is subject to such sale after five years.

**City of Nowthen
Notes to Basic Financial Statements**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

3. Special Assessments (Continued)

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. Revenue from special assessments is recognized by the City when it becomes measurable and available to finance expenditures of the current period. In practice, current and delinquent special assessments received by the City are recognized as revenue for the current year. All remaining delinquent and deferred assessments receivable in governmental funds are offset by deferred inflows of resources. In the proprietary funds all special assessment receivables are shown as revenue in the year they are recorded.

4. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. Prepaid items are reported using the consumption method and recorded as an expense or expenditure at the time of consumption.

5. Capital Assets

Capital assets, which include land, buildings, equipment, and infrastructure assets (e.g., streets, bridges, sidewalks, and similar items), are reported in the applicable governmental activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost as noted on the table below and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Assets	Threshold
All Assets	\$ 5,000

**City of Nowthen
Notes to Basic Financial Statements**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

5. Capital Assets (Continued)

Buildings, infrastructure, and equipment of the City are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings	20 - 60
Building improvements	10 - 20
Vehicles and Equipment	5 - 10
Streets	25 - 50
Vehicles and equipment	3 - 50
Furniture	15
Roads and Highways	10
Furniture	8

6. Lease Receivable

The City is a lessor for a noncancellable leases. The City recognizes a lease receivable and a deferred inflow of resources in the government-wide and governmental fund financial statements.

At the commencement of a lease, the City measures the lease receivable at the present value of payments expected to be received during the lease term. Subsequently, the lease receivable is reduced by the principal portion of lease payments received. The deferred inflow of resources is initially measured as the initial amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date.

Subsequently, the deferred inflow of resources is recognized as revenue over the life of the lease term in a systematic and rational manner.

Key estimates and judgments include how the City determines (1) the discount rate, (2) lease term, (3) lease receipts, and (4) amortization.

7. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net assets that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until that time. The City has one item that qualifies for reporting in this category. The City presents deferred outflows of resources on the Statement of Net Position for deferred outflows of resources related to pensions for various estimate differences that will be amortized and recognized over future years.

City of Nowthen
Notes to Basic Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

7. Deferred Outflows/Inflows of Resources (Continued)

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

The City presents deferred inflows of resources on the Governmental Fund Balance Sheet as unavailable revenue. The governmental funds report unavailable revenues from two sources: property taxes and special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The City presents deferred inflows of resources on the Governmental Funds Balance Sheet and Statement of Net Position for leases as timing requirements for revenue recognition have not yet been met. The City presents deferred inflows of resources on the Statement of Net Position for deferred inflows of resources related to pensions for various estimate differences that will be amortized and recognized over future years.

8. Pensions

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and the relief association and additions to/deductions from PERA's and the relief association's fiduciary net position have been determined on the same basis as they are reported by PERA and the relief association 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.

9. Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits.

A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. In accordance with the provisions of GASB Statement No. 16, *Accounting for Compensated Absences*, no liability is recorded for nonvesting accumulating rights to receive Extended Medical Benefits (EMB).

All compensated absences pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured as a result of employee termination or similar circumstances. These liabilities are paid by the governmental fund the employee provided most of its service to.

City of Nowthen
Notes to Basic Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

10. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bond issuance costs are reported as an expense in the year the bond is issued. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

11. Fund Balance

a. Classification

In the fund financial statements, governmental funds report fund classifications that comprise a hierarchy based primarily on the extent to which the City is bound to honor constraints on the specific purpose for which amounts in those funds can be spent.

- ◆ **Nonspendable Fund Balances** - These are amounts that cannot be spent because they are not in spendable form or are legally or contractually required to be maintained intact.
- ◆ **Restricted Fund Balances** - These are amounts that are restricted to specific purposes either by a) constraints placed on the use of resources by creditors, grantors, contributors, or laws or regulations of other governments or b) imposed by law through enabling legislation.
- ◆ **Committed Fund Balances** - These are amounts comprised of unrestricted funds used for a specific purpose pursuant to constraints imposed by formal action of the City Council and that remain binding unless removed by the City Council by subsequent formal action.
- ◆ **Assigned Fund Balances** - These are amounts that are constrained by the City's intent to be used for specific purposes but are neither restricted nor committed and include all remaining amounts (except for negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as nonspendable, restricted, or committed. The City Council has delegated authority to assign and remove fund balance assignments to the Finance Department.
- ◆ **Unassigned Fund Balance** - These are residual amounts in the General Fund not reported in any other classification. The General Fund is the only fund that can report a positive unassigned fund balance. Other funds would report a negative unassigned fund balance should the total of nonspendable, restricted, and committed fund balances exceed the total net resources of that fund.

**City of Nowthen
Notes to Basic Financial Statements**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

12. Net Position

Net position represents the difference between assets and deferred outflows of resources; and liabilities and deferred inflows of resources in the government-wide financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net position is reported as restricted in the government-wide financial statement when there are limitations on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

13. 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 and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenditures/expense during the reporting period. Actual results could differ from those estimates.

14. Budgetary Information

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the General Fund and Special Revenue Funds. Budgeted expenditure appropriations lapse at year-end. Financial controls for debt service funds are achieved through bond indenture provisions. Project-length financial plans are adopted for all capital project funds.

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The City's City Clerk submits to the City Council a proposed operating budget, which includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. The preliminary property tax levy is legally enacted through passage of a resolution and certified to the County by September 30 of each year.
4. The final budget is legally adopted through the passage of a resolution by December 20 of each year.
5. Formal budgetary integration is employed as a management control device during the year for the General Fund and Special Revenue Funds.
6. The City Council may authorize the transfer of budgeted amounts between funds.

City of Nowthen
Notes to Basic Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

14. Budgetary Information (Continued)

7. The legal level of budgetary control (i.e., the level at which expenditures may not exceed appropriations) is the fund level. For management purposes, budgetary control is maintained within the department level. Also, inherent in this controlling function is the management philosophy that the existence of a particular item or appropriation in the approved budget does not automatically mean it will be spent. The budget process is flexible in that, where the need has been properly demonstrated, the City Administrator can make an adjustment within the department budget. Therefore, there is a constant review process, and expenditures are not approved until it has been determined that 1) adequate funds were appropriated, 2) the expenditure is still necessary, and 3) funds are available.

Both the original and final budgeted amounts as adopted by the City Council are presented in the basic financial statements. Revenues exceeding budgeted amounts are sometimes used for supplemental appropriations during the year. Neither the revenue nor the expenditure budget is adjusted to reflect these items. The City did approve one budget amendment during the year. Encumbrances outstanding at year-end expire and outstanding purchase orders are canceled and not reported in the financial statements.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Deficit Fund Balances

The Pinnaker Lake Road Project fund had a deficit fund balance of \$10,204 at December 31, 2023.

NOTE 3 - DEPOSITS AND INVESTMENTS

Cash balances of the City's funds are combined (pooled) and invested to the extent available in various investments authorized by *Minnesota Statutes*. Each fund's portion of this pool (or pools) is displayed in the financial statements as "cash and cash equivalents" or "investments". For purposes of identifying risk of investing public funds, the balances and related restrictions are summarized as follows.

City of Nowthen
Notes to Basic Financial Statements

NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

A. Deposits

Custodial Credit Risk - Deposits: This is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City has a policy that requires the District's deposits be collateralized as required by *Minnesota Statutes* for an amount exceeding FDIC, SAIF, BIF, or FCUA coverage. As of December 31, 2023, the City's bank balance of \$298,613 was not exposed to custodial credit risk because it was insured and fully collateralized with securities held by the pledging financial institution's trust department or agent and in the City's name. The book balance as of December 31, 2023, was as follows:

Checking accounts	\$ 291,029
Certificates of deposit	<u>1,873,200</u>
Total	<u><u>\$ 2,164,229</u></u>

B. Investments

Investment Type	Fair Value	Investment Maturities	
		Less than 1 Year	1-5 Years
4M Fund	\$ 701,377	\$ 701,377	\$ -
4M Plus Fund	581,313	581,313	-
Government Securities	<u>380,517</u>	<u>380,517</u>	<u>-</u>
Total	<u><u>\$ 1,663,207</u></u>	<u><u>\$ 1,663,207</u></u>	<u><u>\$ -</u></u>

The City had no formal policies in place as of December 31, 2023, to address credit risk, concentration of credit risk, custodial credit risk or interest rate risk for investments.

Interest Rate Risk: This is the risk that market values of securities in a portfolio would decrease due to changes in market value interest rates.

Custodial Credit Risk - Investments: For an investment, this is the risk in the event of the failure of the counterparty the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The City has the following recurring fair value measurements as of December 31, 2023: \$380,517 of investments are valued using various market and industry inputs (Level 2 inputs). Remaining investments are presented at amortized cost.

City of Nowthen
Notes to Basic Financial Statements

NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

C. Deposits and Investments

Summary of cash deposits and investments as of December 31, 2023, were as follows:

Deposits (Note 3.A.)	\$ 2,164,229
Investments (Note 3.B.)	<u>1,663,207</u>
Total	<u><u>\$ 3,827,436</u></u>

Deposits and investments are presented in the December 31, 2023, basic financial statements as follows:

Statement of Net Position	
Cash and investments	<u><u>\$ 3,827,436</u></u>

NOTE 4 - INTERFUND BALANCES AND ACTIVITY

A. Interfund Receivables and Payables

At December 31, 2023, the composition of interfund balances was as follows:

Fund Type and Fund	Due from Other Funds	Due to Other Funds
General Fund	\$ 15,000	\$ -
Street Renewal	10,300	-
Nonmajor Governmental Funds	<u>-</u>	<u>25,300</u>
Total	<u><u>\$ 25,300</u></u>	<u><u>\$ 25,300</u></u>

The due to/due from balances payable are short-term borrowings to cover negative cash balances at the end of the year.

City of Nowthen
Notes to Basic Financial Statements

NOTE 4 - INTERFUND BALANCES AND ACTIVITY (CONTINUED)

B. Interfund Transfers

Transfers during the year ended December 31, 2023, were as follows:

Transfers In	Transfers Out	Amount	Description
General Fund	Non-major	\$ 1,066	Transferred to Basault St. to pay for Debt
Non-major	General Fund	166,380	Begin new fund for Gambling contributions
2019A Improvement Bond	Non-major	1,643	To close out debt service funds
2021A G.O. Improvement Bond	Equipment Fund	93,850	Debt service
Non-major	Street Renewal	<u>10,708</u>	Transfer to close project
Total transfers		<u><u>\$ 273,647</u></u>	

City of Nowthen
Notes to Basic Financial Statements

NOTE 5 - CAPITAL ASSETS

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	\$ 137,750	\$ -	\$ -	\$ 137,750
Total capital assets not being depreciated	<u>137,750</u>	<u>-</u>	<u>-</u>	<u>137,750</u>
Capital assets being depreciated				
Buildings and improvements	2,065,314	66,349	-	2,131,663
Machinery and equipment	2,549,828	161,665	30,056	2,681,437
Infrastructure	4,929,051	208,346	-	5,137,397
Total capital assets being depreciated	<u>9,544,193</u>	<u>436,360</u>	<u>30,056</u>	<u>9,950,497</u>
Less accumulated depreciation for				
Buildings and improvements	926,302	83,467	-	1,009,769
Machinery and equipment	1,822,350	109,567	30,056	1,901,861
Infrastructure	1,237,574	355,926	-	1,593,500
Total accumulated depreciation	<u>3,986,226</u>	<u>548,960</u>	<u>30,056</u>	<u>4,505,130</u>
Total capital assets being depreciated, net	<u>5,557,967</u>	<u>(112,600)</u>	<u>-</u>	<u>5,445,367</u>
Governmental activities capital assets, net	<u>\$ 5,695,717</u>	<u>\$ (112,600)</u>	<u>\$ -</u>	<u>\$ 5,583,117</u>

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

Governmental activities	
General government	\$ 66,230
Public safety	91,094
Public works	355,926
Recycling	20,532
Parks and recreation	<u>15,178</u>
Total depreciation expense - governmental activities	<u>\$ 548,960</u>

City of Nowthen
Notes to Basic Financial Statements

NOTE 6 - LONG-TERM DEBT

A. General Obligation Bonds

The City issues General Obligation (G.O.) bonds and notes to provide for financing tax increment projects and street improvements. Debt service is covered respectively by tax increments and special assessments against benefited properties with any shortfalls being paid from general taxes.

G.O. bonds and notes are direct obligations and pledge the full faith and credit of the City.

B. Components of Long-Term Liabilities

	Issue Date	Interest Rates	Original Issue	Final Maturity	Principal Outstanding	Due Within One Year
Governmental activities						
G.O. Improvement Bonds, 2019A	7/16/2019	3.00%	\$ 1,175,000	2/1/2030	\$ 870,000	\$ 105,000
G.O. Improvement & Equipment Bonds, 2021A	10/27/2021	1.00-2.00%	2,680,000	2/1/2032	2,435,000	260,000
Unamortized bond premium	N/A	N/A	N/A	N/A	96,582	-
Compensated absences	N/A	N/A	N/A	N/A	29,101	-
Total governmental activities					<u>\$ 3,430,683</u>	<u>\$ 365,000</u>

Long-term bonded indebtedness listed above were issued to finance acquisition equipment and construction of capital facilities.

C. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2023, was as follows:

	Balance	Additions	Reductions	Balance
Governmental activities				
General obligation bonds and notes	\$ 3,675,000	\$ -	\$ 370,000	\$ 3,305,000
Unamortized bond premium	108,655	-	12,073	96,582
Compensated absences	32,165	-	3,064	29,101
Total governmental activities long-term liabilities	<u>\$ 3,815,820</u>	<u>\$ -</u>	<u>\$ 385,137</u>	<u>\$ 3,430,683</u>

The General Fund typically liquidates the liability related to compensated absences.

City of Nowthen
Notes to Basic Financial Statements

NOTE 6 - LONG-TERM DEBT (CONTINUED)

D. Minimum Debt Payments

Minimum annual principal and interest payments required to retire long-term liabilities:

<u>Year Ending December 31,</u>	Governmental Activities	
	G.O. Bonds and Notes	
	Principal	Interest
2023	\$ 365,000	\$ 63,495
2024	395,000	54,770
2025	400,000	45,595
2026	410,000	36,245
2027	425,000	26,620
2028-2032	1,310,000	29,318
Total	\$ 3,305,000	\$ 256,043

NOTE 7 - FUND BALANCES/NET POSITION

A. Fund Balances

Fund balances are classified as listed below to reflect the limitations and restrictions of the respective funds.

	General Fund	Equipment Fund	Street Renewal	2019A Improvement Bond	2021A G.O. Improvement Bond	Nonmajor Governmental Funds	Total
Nonspendable							
Prepaid items	\$ 38,921	\$ 409,500	\$ -	\$ -	\$ -	\$ -	\$ 448,421
Restricted							
Debt service	-	-	-	295,927	252,262	1,655	549,844
Charitable gambling	-	-	-	-	-	64,540	64,540
Public safety	198,190	-	-	-	-	-	198,190
Committed							
Recycling services	-	-	-	-	-	26,543	26,543
Economic Development	-	-	-	-	-	2,627	2,627
Assigned							
Asset replacement	-	365,370	-	-	-	-	365,370
Road and building construction/ improvement	-	-	947,217	-	-	260,327	1,207,544
Park development	-	-	-	-	-	234,494	234,494
Unassigned	1,221,668	-	-	-	-	(10,204)	1,211,464
Total fund balance	\$ 1,458,779	\$ 774,870	\$ 947,217	\$ 295,927	\$ 252,262	\$ 579,982	\$ 4,309,037

B. Net Position

Restricted net position is comprised of the total restricted fund balances in the governmental funds plus the effect of the conversion to the government-wide net position.

City of Nowthen
Notes to Basic Financial Statements

NOTE 8 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The City purchases commercial insurance coverage through the League of Minnesota Cities Insurance Trust (LMCIT) with other cities in the state which is a public entity risk pool currently operating as a common risk management and insurance program. The City pays an annual premium to the LMCIT for its insurance coverage. The LMCIT is self-sustaining through commercial companies for excess claims. The City is covered through the pool for any claims incurred but unreported, however, retains risk for the deductible portion of its insurance policies. The amount of these deductibles is considered immaterial to the financial statements.

There were no significant reductions in insurance from the previous year or settlements in excess of insurance coverage for any of the past three years.

The City's workers' compensation coverage is provided through a pooled self-insurance program through LMCIT. The City pays an annual premium to LMCIT and is subject to supplemental assessments if deemed necessary by LMCIT. For workers compensation, the City enrolls with a state-certified managed care organization and has a \$500 deductible per occurrence to further decrease the cost of coverage. Final premiums are determined after an audit of payroll subsequent to the close of the agreement year and are subject to revisions in rates, payrolls, and experience modification. The amount of premium adjustment, if any, is considered immaterial and not recorded until received or paid.

At December 31, 2023, there were no other claims liabilities reported in the fund based on the requirements of GASB Statement No. 10, which requires a liability for claims be reported if information prior to the issuance of the financial statements indicates it is probable a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

NOTE 9 - PENSION PLANS

The city participates in various pension plans, total pension expense for the year ended December 31, 2023, was \$84,604. The components of pension expense are noted in the following plan summaries.

The General Fund typically liquidate the liability related to the pensions.

Public Employees' Retirement Association

A. Plan Description

The City participates in the following cost-sharing multiple-employer defined benefit pension plans administered by 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.

City of Nowthen
Notes to Basic Financial Statements

NOTE 9 - PENSION PLANS

Public Employees' Retirement Association (Continued)

A. Plan Description (Continued)

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.

B. Benefits Provided

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

General Employees Plan Benefits

General Employees Plan benefits are based on a member's highest average salary for any 5 successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for Coordinated members is 1.2% for each of the first 10 years of service and 1.7% for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7% 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% of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1% and a maximum of 1.5%. 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.

C. Contributions

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

**City of Nowthen
Notes to Basic Financial Statements**

NOTE 9 - PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

C. Contributions (Continued)

General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.5% of their annual covered salary in fiscal year 2023 and the City was required to contribute 7.5% for Coordinated Plan members. The City's contributions to the General Employees Fund for the year ended December 31, 2023, were \$69,334. The City's contributions were equal to the required contributions as set by state statute.

D. Pension Costs

General Employees Fund Pension Costs

At December 31, 2023, the City reported a liability of \$57,227 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 \$7,051.

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 0.0046% at the end of the measurement period and 0.0033% for the beginning of the period.

City's proportionate share of net pension liability	\$ 257,227
State of Minnesota's proportionate share of the net pension liability associated with the City	<u>7,051</u>
Total	<u>\$ 264,278</u>

For the year ended December 31, 2023, the City recognized pension expense of \$110,865 for its proportionate share of General Employees Plan's pension expense. Included in the amount, the City recognized \$32 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 Nowthen
Notes to Basic Financial Statements

NOTE 9 - PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

D. Pension Costs (Continued)

General Employees Fund Pension Costs (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	\$ 7,876	\$ 1,387
Net difference between projected and actual investment earnings	-	19,117
Changes in proportion	80,218	6,406
Changes in actuarial assumptions	32,481	70,503
Contributions paid to PERA subsequent to the measurement date	34,667	-
Total	\$ 155,242	\$ 97,413

The \$34,667 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 inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31,	Pension Expense Amount
2024	\$ 22,066
2025	(15,759)
2026	22,435
2027	(5,580)
Total	\$ 23,162

City of Nowthen
Notes to Basic Financial Statements

NOTE 9 - PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

E. Long-Term Expected Return on Investment

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity	33.5 %	5.10 %
International equity	16.5	5.30
Fixed income	25.0	0.75
Private markets	25.0	5.90
Total	<u>100.0 %</u>	

F. 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 7.0%. 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 7.0% was deemed to be within that range of reasonableness for financial reporting purposes.

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

Salary growth assumptions in the General Employees Plan range in annual increments from 10.25% after one year of service to 3.0% after 27 years of service.

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

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 study for the Police and Fire Plan was completed in 2020 and was adopted by the Board and became effective with the July 1, 2021, actuarial valuation.

**City of Nowthen
Notes to Basic Financial Statements**

NOTE 9 - PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

F. Actuarial Methods and Assumptions (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 6.5% to 7.0%.

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 2.5% minus the actual 2024 adjustment will be payable in a lump sum for calendar year 2024 by March 31, 2024.

G. Discount Rate

The discount rate used for the General Employee Plan used to measure the total pension liability in 2023 was 7.0%. 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 positions of the General Employees Fund was projected to be available to make all projected future benefit payments of current Plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

H. Pension Liability Sensitivity

The following presents the City's proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate 1 percentage point lower or 1 percentage point higher than the current discount rate:

	1% Decrease in Discount Rate (6.0%)	Current Discount Rate (7.0%)	1% Increase in Discount Rate (8.0%)
City's proportionate share of the General Employees Fund net pension liability	\$ 455,055	\$ 257,227	\$ 94,506

I. Pension Plan Fiduciary Net Position

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

**City of Nowthen
Notes to Basic Financial Statements**

NOTE 9 - PENSION PLANS (CONTINUED)

I. Pension Plan Fiduciary Net Position (Continued)

Public Employees Defined Contribution Plan

Council members of the City of Nowthen 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.

The defined contribution plan consists of individual accounts paying a lump-sum benefit. Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses; therefore, there is no future liability to the City. *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 5% 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 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 2% of employer contributions and twenty-five hundredths of 1% (.25%) of the assets in each member's account annually.

Pension expense for the year is equal to the contributions made. Total contributions made by the City during fiscal year 2023 were:

Contribution Amount		Percentage of Covered Payroll		Required Rates
Employee	Employer	Employee	Employer	
\$ 550	\$ 550	5.0%	5.0%	5.0%

NOTE 10 - PRIOR PERIOD ADJUSTMENT

For the year ended December 31, 2023, a prior period adjustment was required to adjust beginning net position for Governmental Activities and beginning fund balances for the General Fund to correct a prior year misstatement related to deposits payable. This adjustment affected the beginning net position for governmental activities and beginning fund balance in the General Fund in the amount of \$48,834.

REQUIRED SUPPLEMENTARY INFORMATION

City of Nowthen
Schedule of City's Proportionate Share
of Net Pension Liability
General Employees Retirement Fund
Last Ten Years

For Fiscal Year Ended June 30,	City's Proportionate Share (Percentage) of the Net Pension Liability (Asset)	City's Proportionate Share (Amount) of the Net Pension Liability (Asset)	State's Proportionate Share (Amount) of the Net Pension Liability Associated with the City	City's Proportionate Share of the Net Pension Liability and the State's Proportionate Share of the Net Pension Liability Associated with the City	City's Covered Payroll	City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2022	0.0046%	\$ 257,227	\$ 7,051	\$ 264,278	\$ 365,413	70.39%	83.10%
2022	0.0033%	261,361	7,670	269,031	296,027	88.29%	76.67%
2021	0.0036%	153,736	4,682	158,418	200,387	76.72%	87.00%
2020	0.0034%	203,846	6,277	210,123	240,000	84.94%	79.06%
2019	0.0026%	143,748	4,500	148,248	186,640	77.02%	80.23%
2018	0.0033%	183,070	5,991	189,061	619,453	29.55%	79.53%
2017	0.0037%	236,206	2,967	239,173	238,133	99.19%	75.90%
2016	0.0040%	324,780	4,187	328,967	247,013	133.18%	68.91%
2015	0.0043%	222,848	-	222,848	249,733	89.23%	78.19%

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

**City of Nowthen
Schedule of City Contributions
General Employees Retirement Fund
Last Ten Years**

Fiscal Year Ending December 31,	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	City's Covered Payroll	Contributions as a Percentage of Covered Payroll
2023	\$ 69,334	\$ 69,334	\$ -	\$ 924,453	7.50%
2022	56,406	56,406	-	752,080	7.50%
2021	15,029	15,029	-	200,387	7.50%
2020	18,000	18,000	-	240,000	7.50%
2019	13,998	13,998	-	186,640	7.50%
2018	16,459	16,459	-	219,453	7.50%
2017	17,860	17,860	-	238,133	7.50%
2016	18,526	18,526	-	247,013	7.50%
2015	18,730	18,730	-	249,733	7.50%

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

City of Nowthen
Notes to Required Supplementary Information

General Employees Fund

2023 Changes

Changes in Actuarial Assumptions

- ◆ The investment return assumption and single discount rate were changed from 6.5% to 7.0%.

Changes in Plan Provisions

- ◆ An additional one-time direct state aid contribution of \$170.1 million was 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 2.5% 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 have been no changes since the prior valuation.

2021 Changes

Changes in Actuarial Assumptions

- ◆ The investment return and single discount rates were changed from 7.5% to 6.5% for financial reporting purposes.
- ◆ The mortality improvement scale was changed from scale MP-2019 to scale MP-2020.

Changes in Plan Provisions

- ◆ There have been no changes since the prior valuation.

2020 Changes

Changes in Actuarial Assumptions

- ◆ The price inflation assumption was decreased from 2.5% to 2.25%.
- ◆ The payroll growth assumption was decreased from 3.25% to 3.0%.
- ◆ Assumed salary increase rates were changed as recommended in the June 30, 2019, experience study. The net effect is assumed rates that average 0.25% less than previous rates.
- ◆ Assumed rates of retirement were changed as recommended in the June 30, 2019, experience study. The changes result in more unreduced (normal) retirements and slightly fewer Rule of 90 and early retirements.
- ◆ Assumed rates of termination were changed as recommended in the June 30, 2019, experience study. The new rates are based on service and are generally lower than the previous rates for years 2-5 and slightly higher thereafter.
- ◆ Assumed rates of disability were changed as recommended in the June 30, 2019, experience study. The change results in fewer predicted disability retirements for males and females.
- ◆ The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 General Mortality table, with adjustments. The base mortality table for disabled annuitants was changed from the RP-2014 disabled annuitant mortality table to the Pub-2010 General/Teacher disabled annuitant mortality table, with adjustments.
- ◆ The mortality improvement scale was changed from Scale MP-2018 to Scale MP-2019.
- ◆ The assumed spouse age difference was changed from two years older for females to one year older.

City of Nowthen
Notes to Required Supplementary Information

General Employees Fund (Continued)

2020 Changes (Continued)

Changes in Actuarial Assumptions (Continued)

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

Changes in Plan Provisions

- ◆ Augmentation for current privatized members was reduced to 2.0% for the period July 1, 2020 through December 31, 2023, and 0.0% thereafter. 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 1.0% per year through 2044 and 2.5% per year thereafter to 1.25% per year.

Changes in Plan Provisions

- ◆ The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024.
- ◆ Interest credited on member contributions decreased from 4.00% to 3.00%, beginning July 1, 2018.
- ◆ Deferred augmentation was changed to 0.00%, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- ◆ Contribution stabilizer provisions were repealed.
- ◆ Postretirement benefit increases were changed from 1.00% per year with a provision to increase to 2.50% upon attainment of 90.00% funding ratio to 50.00% of the Social Security Cost of Living Adjustment, not less than 1.00% and not more than 1.50%, beginning January 1, 2019.
- ◆ 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 CSA loads were changed from 0.8% for active members and 60% for vested and non-vested deferred members. The revised CSA loads are now 0.0% for active member liability, 15% for vested deferred member liability and 3% for non-vested deferred member liability.

City of Nowthen
Notes to Required Supplementary Information

General Employees Fund (Continued)

2017 Changes (Continued)

Changes in Actuarial Assumptions (Continued)

- ◆ The assumed post-retirement benefit increase rate was changed from 1.0% per year for all years to 1.0% per year through 2044 and 2.5% per year thereafter.

Changes in Plan Provisions

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

2016 Changes

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

- ◆ There have been no changes since the prior valuation.

2015 Changes

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

SUPPLEMENTARY INFORMATION

City of Nowthen
Combining Balance Sheet -
Nonmajor Governmental Funds
December 31, 2023

	Special Revenue	Debt Service	Capital Projects	Total Nonmajor Governmental
Assets				
Cash and investments	\$ 59,862	\$ 1,655	\$ 519,223	\$ 580,740
Accounts receivable	11,489	-	-	11,489
Interest receivable	329	-	8,343	8,672
Due from other governments	38,971	-	-	38,971
Special assessment receivable				
Deferred	-	-	19,579	19,579
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 110,651</u>	<u>\$ 1,655</u>	<u>\$ 547,145</u>	<u>\$ 659,451</u>
Liabilities				
Accounts payable	\$ 1,128	\$ -	\$ 32,649	\$ 33,777
Due to other funds	15,000	-	10,300	25,300
Salaries and benefits payable	813	-	-	813
Total liabilities	<u>16,941</u>	<u>-</u>	<u>42,949</u>	<u>59,890</u>
Deferred Inflows of Resources				
Unavailable revenue - special assessments	-	-	19,579	19,579
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Fund Balances				
Restricted	64,540	1,655	-	66,195
Committed	29,170	-	-	29,170
Assigned	-	-	494,821	494,821
Unassigned	-	-	(10,204)	(10,204)
Total fund balances	<u>93,710</u>	<u>1,655</u>	<u>484,617</u>	<u>579,982</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 110,651</u>	<u>\$ 1,655</u>	<u>\$ 547,145</u>	<u>\$ 659,451</u>

City of Nowthen
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances -
Nonmajor Governmental Funds
Year Ended December 31, 2023

	Special Revenue	Debt Service	Capital Projects	Total Nonmajor Governmental Funds
Revenues				
Property taxes	\$ -	\$ (106)	\$ -	\$ (106)
Special assessments	-	-	4,601	4,601
Intergovernmental	39,054	-	-	39,054
Charges for services	27,202	-	2,500	29,702
Miscellaneous				
Investment income	454	-	14,113	14,567
Contributions and donations	32,617	-	-	32,617
Total revenues	<u>99,327</u>	<u>(106)</u>	<u>21,214</u>	<u>120,435</u>
Expenditures				
Current				
Public works	72,589	-	398	72,987
Debt service				
Principal	-	20,000	-	20,000
Interest and other charges	-	243	-	243
Capital outlay				
General government	-	-	66,349	66,349
Public works	6,049	-	577	6,626
Parks and recreation	-	-	52,219	52,219
Total expenditures	<u>78,638</u>	<u>20,243</u>	<u>119,543</u>	<u>218,424</u>
Excess of revenues over (under) expenditures	20,689	(20,349)	(98,329)	(97,989)
Other Financing Sources (Uses)				
Transfers in	31,380	-	145,708	177,088
Transfers out	-	(2,709)	-	(2,709)
Total other financing sources (uses)	<u>31,380</u>	<u>(2,709)</u>	<u>145,708</u>	<u>174,379</u>
Net change in fund balances	52,069	(23,058)	47,379	76,390
Fund Balances				
Beginning of year	<u>41,641</u>	<u>24,713</u>	<u>437,238</u>	<u>503,592</u>
End of year	<u>\$ 93,710</u>	<u>\$ 1,655</u>	<u>\$ 484,617</u>	<u>\$ 579,982</u>

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SPECIAL REVENUE FUNDS

City of Nowthen
Combining Balance Sheet -
Nonmajor Special Revenue Funds
December 31, 2023

	Special Revenue			Total Special Revenue Funds
	Economic Development (222)	Recycling Fund (603)	Gambling Contribution Fund (230)	
Assets				
Cash and investments	\$ 2,585	\$ 4,769	\$ 52,508	\$ 59,862
Accounts receivable	-	-	11,489	11,489
Interest receivable	42	(256)	543	329
Due from other governments	-	38,971	-	38,971
Total assets	<u>\$ 2,627</u>	<u>\$ 43,484</u>	<u>\$ 64,540</u>	<u>\$ 110,651</u>
Liabilities				
Accounts payable	\$ -	\$ 1,128	\$ -	\$ 1,128
Due to other funds	-	15,000	-	15,000
Salaries and benefits payable	-	813	-	813
Total liabilities	<u>-</u>	<u>16,941</u>	<u>-</u>	<u>16,941</u>
Fund Balances				
Restricted	-	-	64,540	64,540
Committed	2,627	26,543	-	29,170
Total fund balances	<u>2,627</u>	<u>26,543</u>	<u>64,540</u>	<u>93,710</u>
Total liabilities and fund balances	<u>\$ 2,627</u>	<u>\$ 43,484</u>	<u>\$ 64,540</u>	<u>\$ 110,651</u>

City of Nowthen
Combining Statement of Revenues, Expenditures,
and Changes In Fund Balances -
Nonmajor Special Revenue Funds
Year Ended December 31, 2023

	Special Revenue			Total Special Revenue Funds
	Economic Development (222)	Recycling Fund (603)	Gambling Contribution Fund (230)	
Revenues				
Intergovernmental	\$ 23	\$ 39,031	\$ -	\$ 39,054
Charges for services	-	27,202	-	27,202
Miscellaneous				
Investment income	85	(174)	543	454
Contributions and donations	-	-	32,617	32,617
Total revenues	<u>108</u>	<u>66,059</u>	<u>33,160</u>	<u>99,327</u>
Expenditures				
Current				
Public works	-	72,589	-	72,589
Capital outlay				
Public works	-	6,049	-	6,049
Total expenditures	<u>-</u>	<u>78,638</u>	<u>-</u>	<u>78,638</u>
Excess of revenues over (under) expenditures	108	(12,579)	33,160	20,689
Other Financing Sources (Uses)				
Transfers in	-	-	31,380	31,380
Net change in fund balances	108	(12,579)	64,540	52,069
Fund Balances				
Beginning of year	<u>2,519</u>	<u>39,122</u>	<u>-</u>	<u>41,641</u>
End of year	<u>\$ 2,627</u>	<u>\$ 26,543</u>	<u>\$ 64,540</u>	<u>\$ 93,710</u>

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DEBT SERVICE FUNDS

City of Nowthen
Combining Balance Sheet -
Nonmajor Debt Service Funds
December 31, 2023

	Debt Service				Total Debt Service Funds
	2009 Basalt (305)	2013 Fire Certs (312)	2012A Refunding (311)	2011 Grader Certs (306)	
Assets					
Cash and investments	\$ -	\$ 1,655	\$ -	\$ -	\$ 1,655
Total assets	<u>\$ -</u>	<u>\$ 1,655</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,655</u>
Fund Balances					
Restricted	<u>\$ -</u>	<u>\$ 1,655</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,655</u>

City of Nowthen
Combining Statement of Revenues, Expenditures and Changes
in Fund Balances - Nonmajor Debt Service Funds
Year Ended December 31, 2023

	Debt Service				Total Debt Service Funds
	2009 Basalt (305)	2013 Fire Certs (312)	2012A Refunding (311)	2011 Grader Certs (306)	
Revenues					
Property taxes	\$ -	\$ (106)	\$ -	\$ -	\$ (106)
Expenditures					
Debt service					
Principal	-	20,000	-	-	20,000
Interest and other charges	-	243	-	-	243
Total expenditures	-	20,243	-	-	20,243
Excess of revenues over (under) expenditures	-	(20,349)	-	-	(20,349)
Other Financing Sources (Uses)					
Transfers out	(1,066)	-	(204)	(1,439)	(2,709)
Net change in fund balances	(1,066)	(20,349)	(204)	(1,439)	(23,058)
Fund Balances					
Beginning of year	1,066	22,004	204	1,439	24,713
End of year	\$ -	\$ 1,655	\$ -	\$ -	\$ 1,655

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CAPITAL PROJECTS FUNDS

**City of Nowthen
Combining Balance Sheet -
Nonmajor Capital Projects Funds
December 31, 2023**

	Capital Projects				Total Capital Project Funds
	Park Development (404)	Pinnaker Lake Road Project (415)	Building Capital Improvement (410)	2020 Road Improvements (417)	
Assets					
Cash and investments	\$ 262,913	\$ 96	\$ 256,214	\$ -	\$ 519,223
Special assessment receivable:					
Deferred	-	19,579	-	-	19,579
Interest receivable	4,230	-	4,113	-	8,343
Total assets	<u>\$ 267,143</u>	<u>\$ 19,675</u>	<u>\$ 260,327</u>	<u>\$ -</u>	<u>\$ 547,145</u>
Liabilities					
Accounts payable	\$ 32,649	\$ -	\$ -	\$ -	\$ 32,649
Due to other funds	-	10,300	-	-	10,300
Total liabilities	<u>32,649</u>	<u>10,300</u>	<u>-</u>	<u>-</u>	<u>42,949</u>
Deferred inflows of resources					
Unavailable revenue					
- special assessments	-	19,579	-	-	19,579
Fund Balances					
Assigned	234,494	-	260,327	-	494,821
Unassigned	-	(10,204)	-	-	(10,204)
Total fund balances	<u>234,494</u>	<u>(10,204)</u>	<u>260,327</u>	<u>-</u>	<u>\$ 484,617</u>
Total liabilities and fund balances	<u>\$ 267,143</u>	<u>\$ 19,675</u>	<u>\$ 260,327</u>	<u>\$ -</u>	<u>\$ 547,145</u>

City of Nowthen
Combining Statement of Revenues, Expenditures, and Changes in
Fund Balances - Nonmajor Capital Projects Funds
Year Ended December 31, 2023

	Capital Projects				Total Capital Project Funds
	Park Development (404)	Pinnaker Lake Road Project (415)	Building Capital Improvement (410)	2020 Road Improvements (417)	
Revenues					
Special assessments	\$ -	\$ 4,601	\$ -	\$ -	\$ 4,601
Charges for services	2,500	-	-	-	2,500
Miscellaneous					
Investment income	8,845	-	5,794	(526)	14,113
Total revenues	<u>11,345</u>	<u>4,601</u>	<u>5,794</u>	<u>(526)</u>	<u>21,214</u>
Expenditures					
Current					
Public works	-	-	-	398	398
Capital outlay					
General government	-	-	66,349	-	66,349
Public works	-	-	-	577	577
Parks and recreation	52,219	-	-	-	52,219
Total expenditures	<u>52,219</u>	<u>-</u>	<u>66,349</u>	<u>975</u>	<u>119,543</u>
Excess of revenues over (under) expenditures	(40,874)	4,601	(60,555)	(1,501)	(98,329)
Other financing sources (uses)					
Transfers in	-	-	135,000	10,708	145,708
Net change in fund balances	(40,874)	4,601	74,445	9,207	47,379
Fund Balances					
Beginning of year	<u>275,368</u>	<u>(14,805)</u>	<u>185,882</u>	<u>(9,207)</u>	<u>437,238</u>
End of year	<u>\$ 234,494</u>	<u>\$ (10,204)</u>	<u>\$ 260,327</u>	<u>\$ -</u>	<u>\$ 484,617</u>

City of Nowthen
Detailed Schedule of Revenues, Expenditures, and
Changes in Fund Balance -
Budget and Actual - General Fund
Year Ended December 31, 2023

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
Revenues				
Property taxes	\$ 1,702,905	\$ 1,702,905	\$ 1,659,685	\$ (43,220)
Special assessments	-	-	3,649	3,649
Licenses and permits	117,550	117,550	129,332	11,782
Intergovernmental revenue				
Local government aid	300	300	3,074	2,774
Market value credit	-	-	10,553	10,553
PERA aid	-	-	38,110	38,110
Other grants and aids	-	-	210,635	210,635
Total intergovernmental revenue	<u>300</u>	<u>300</u>	<u>262,372</u>	<u>262,072</u>
Charges for services				
General government	135,685	135,685	115,829	(19,856)
Total charges for services	<u>135,685</u>	<u>135,685</u>	<u>115,829</u>	<u>(19,856)</u>
Fines and forfeitures	8,900	8,900	9,226	326
Miscellaneous revenues				
Investment income	6,000	6,000	53,261	47,261
Contributions and donations	30,000	30,000	-	(30,000)
Other	1,500	1,500	14,712	13,212
Total miscellaneous revenues	<u>37,500</u>	<u>37,500</u>	<u>67,973</u>	<u>30,473</u>
Total revenues	<u>2,002,840</u>	<u>2,002,840</u>	<u>2,248,066</u>	<u>245,226</u>
Expenditures				
General government				
Mayor and council				
Current	31,660	31,660	34,673	3,013
Total mayor and council	<u>31,660</u>	<u>31,660</u>	<u>34,673</u>	<u>3,013</u>
Administrative				
Current	637,375	637,375	622,565	(14,810)
Total administrative	<u>637,375</u>	<u>637,375</u>	<u>622,565</u>	<u>(14,810)</u>
Legal services:				
Current	83,000	83,000	80,367	(2,633)
Total legal services	<u>83,000</u>	<u>83,000</u>	<u>80,367</u>	<u>(2,633)</u>
Planning and zoning				
Current	61,500	61,500	66,877	5,377
Total planning and zoning	<u>61,500</u>	<u>61,500</u>	<u>66,877</u>	<u>5,377</u>

City of Nowthen
Detailed Schedule of Revenues, Expenditures, and
Changes in Fund Balance -
Budget and Actual - General Fund
Year Ended December 31, 2023

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
Expenditures (Continued)				
General government (Continued)				
Other general government				
Capital outlay	\$ 5,000	\$ 5,000	\$ 878	\$ (4,122)
Total other general government	5,000	5,000	878	(4,122)
Total general government	818,535	818,535	805,360	(13,175)
Public safety				
Police				
Current	411,835	411,835	408,089	(3,746)
Total police	411,835	411,835	408,089	(3,746)
Fire				
Current	259,765	259,765	260,147	382
Total fire	259,765	259,765	260,147	382
Building and inspections				
Current	113,500	113,500	121,746	8,246
Total building and inspections	113,500	113,500	121,746	8,246
Total public safety	785,100	785,100	789,982	4,882
Public works				
Streets and highways				
Current				
Street maintenance	445,010	445,010	448,930	3,920
Total current	445,010	445,010	448,930	3,920
Capital outlay	-	-	-	-
Total public works	445,010	445,010	448,930	3,920
Parks and recreation				
Current	83,050	83,050	48,541	(34,509)
Total expenditures	2,131,695	2,131,695	2,092,813	(38,882)
Excess of revenues over (under) expenditures	(128,855)	(128,855)	155,253	284,108

City of Nowthen
Detailed Schedule of Revenues, Expenditure, and
Changes in Fund Balance -
Budget and Actual - General Fund
Year Ended December 31, 2023

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
Other Financing Sources (Uses)				
Transfers in	\$ 1,065	\$ 1,065	\$ 1,066	\$ 1
Transfers out	(75,000)	(166,380)	(166,380)	-
Total other financing sources (uses)	<u>(73,935)</u>	<u>(165,315)</u>	<u>(165,314)</u>	<u>1</u>
Net change in fund balance	<u>\$ (202,790)</u>	<u>\$ (294,170)</u>	(10,061)	<u>\$ 284,109</u>
Fund Balance				
Beginning of year, as previously stated			<u>1,420,006</u>	
Prior period adjustment (see note 10)			<u>48,834</u>	
Beginning of year, as restated			<u>1,468,840</u>	
End of year			<u>\$ 1,458,779</u>	



**Report on Internal Control over Financial Reporting
and on Compliance and other Matters Based on an Audit of
Financial Statements Performed in Accordance with
*Government Auditing Standards***

Independent Auditor's Report

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Nowthen, Minnesota, as of and for the year ended December 31, 2023, and the related notes to financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated April 24, 2024.

Report on Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses, or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses on internal control as audit finding 2023-001 that we consider to be a material weakness.

City's Response to the Finding

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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result 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.

BerganKDV, Ltd.

Minneapolis, Minnesota
April 24, 2024