DEPARTMENT OF PUBLIC UTILITIES
OF THE CITY OF VIRGINIA, MINNESOTA

FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
Year Ended December 31, 2023

DEPARTMENT OF PUBLIC UTILITIES
OF THE CITY OF VIRGINIA, MINNESOTA

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DEPARTMENT OF PUBLIC UTILITIES
OF THE CITY OF VIRGINIA, MINNESOTA

ORGANIZATION
December 31, 2023

Commission Members

Jeff Marwick	President
James Makowsky	Vice President
James Petroskey	Secretary
Garrison Hale	
Bruce Johnson	

Walker, Giroux & Hahne LLC

CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

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INDEPENDENT AUDITOR'S REPORT

To the Members of the Public Utilities Commission
Department of Public Utilities
City of Virginia, Minnesota

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Department of Public Utilities of the City of Virginia, Minnesota, as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the Department of Public Utilities of the City of Virginia, Minnesota's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Department of Public Utilities of the City of Virginia, Minnesota, as of December 31, 2023, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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 (*Government Auditing Standards*). 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 Department of Public Utilities of the City of Virginia, Minnesota 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 opinion.

Emphasis of Matter

As discussed in Note 1, the financial statements of the Department of Public Utilities of the City of Virginia, Minnesota are intended to present the financial position, the changes in financial position, and, where applicable, cash flows of only that portion of the business-type activities of the City of Virginia, Minnesota that is attributable to the transactions of the Department of Public Utilities. They do no purport to, and do not, present fairly the financial position of the City of Virginia, Minnesota, as of December 31, 2023, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

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 opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS 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 Department of Public Utilities of the City of Virginia, Minnesota'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.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the schedule of changes in the Department’s net OPEB liability and related ratios and schedules of Department’s proportionate share of net pension liability and Department’s contributions for defined benefit pension plan be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Other Information

Management is responsible for the other information included in this report. The other information comprises the schedule of departmental revenues and expenses but does not include the basic financial statements and our auditor's report thereon. Our opinion on the basic financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated May 15, 2024 on our consideration of the Department of Public Utilities of the City of Virginia, Minnesota's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Department of Public Utilities of the City of Virginia, Minnesota's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department of Public Utilities of the City of Virginia, Minnesota's internal control over financial reporting and compliance.

Walker, Giroux & Hahne, LLC

Virginia, Minnesota
May 15, 2024

FINANCIAL STATEMENTS

DEPARTMENT OF PUBLIC UTILITIES
OF THE CITY OF VIRGINIA, MINNESOTA

STATEMENT OF NET POSITION
December 31, 2023

ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	$ 16,065,685
Investments	81,132
Accounts receivable -	
Customer services (net of allowance for uncollectibles of $184,000)	1,537,712
Unbilled revenue	1,700,512
Other receivables	35,800
Conversion loans receivable - due within one year	
(net of allowance for uncollectibles of $40,500)	988,539
Accrued interest receivable	50,071
Inventories	547,724
Prepaid items	61,068
TOTAL CURRENT ASSETS	21,068,243
RESTRICTED CASH	
Customer deposits	622,909
Energy assistance	29,588
TOTAL RESTRICTED CASH	652,497
NONCURRENT ASSETS	
Conversion loans receivable - due in more than one year	
(net of allowance for uncollectibles of $364,500)	8,925,303
Capital assets	
Land	240,570
Construction in progress	1,887,955
Buildings	17,206,782
Improvements	60,201,215
Machinery and equipment	49,987,715
Vehicles	2,933,949
Less accumulated depreciation	(91,161,746)
Total capital assets, net of accumulated depreciation	41,296,440
TOTAL NONCURRENT ASSETS	50,221,743
TOTAL ASSETS	71,942,483
DEFERRED OUTFLOWS OF RESOURCES	
Related to pensions	786,935
Related to OPEB	488,661
TOTAL DEFERRED OUTFLOWS OF RESOURCES	1,275,596

The accompanying notes are an integral part of these financial statements.

DEPARTMENT OF PUBLIC UTILITIES
OF THE CITY OF VIRGINIA, MINNESOTA

STATEMENT OF NET POSITION (Continued)
December 31, 2023

LIABILITIES	
CURRENT LIABILITIES	
Accounts payable	$ 1,675,878
Due to City of Virginia	668,820
Vacation and comp time benefits payable	208,860
Accrued payroll and related liabilities	310,307
Dental claims liability	118,245
Accrued interest payable	15,316
Current portion of utility net revenue note payable	321,061
Current portion of water tank maintenance agreement	341,136
Severance benefits payable	8,917
TOTAL CURRENT LIABILITIES	3,668,540
LIABILITIES PAYABLE FROM RESTRICTED ASSETS	
Customer deposits payable	622,909
Energy assistance payable	29,588
TOTAL LIABILITIES PAYABLE FROM RESTRICTED ASSETS	652,497
NONCURRENT LIABILITIES	
Utility net revenue note payable	695,192
Water tank maintenance agreement	1,190,466
Severance benefits payable	28,861
Net pension liability	2,639,371
Other postemployment benefits (OPEB) payable	8,465,490
TOTAL NONCURRENT LIABILITIES	13,019,380
TOTAL LIABILITIES	17,340,417
DEFERRED INFLOWS OF RESOURCES	
Related to pensions	1,658,461
Related to OPEB	1,330,041
TOTAL DEFERRED INFLOWS OF RESOURCES	2,988,502
NET POSITION	
Net investment in capital assets	38,748,585
Unrestricted	14,140,575
TOTAL NET POSITION	$ 52,889,160

The accompanying notes are an integral part of these financial statements.

DEPARTMENT OF PUBLIC UTILITIES
OF THE CITY OF VIRGINIA, MINNESOTA

STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET POSITION
Year Ended December 31, 2023

OPERATING REVENUES	
Revenues from sales and services	
Electric	$ 12,308,844
Water	1,832,109
Gas	4,931,268
Steam	1,140,564
Other operating revenues	138,139
TOTAL OPERATING REVENUES	20,350,924
OPERATING EXPENSES	
Commodity costs	10,297,861
Salaries	3,633,417
Benefits	1,545,117
Communications	62,027
Contract services	55,519
Fees, dues, and miscellaneous	112,743
Insurance	424,004
Operating supplies	2,373,432
Professional services	267,573
Rent	432
Repairs and maintenance	1,697,550
Steam conversion costs	200,000
Travel and transportation	7,576
Utilities	185,081
Depreciation	2,239,706
TOTAL OPERATING EXPENSES	23,102,038
OPERATING LOSS	(2,751,114)
NONOPERATING REVENUES (EXPENSES)	
Interest income	424,889
Rentals and other income	92,661
Gain on change in market value of investments	44,211
Interest expense and other	(83,721)
Gain on sale of equipment	20,000
Grant income	1,120
Gain on sale of investment in Laurentian Energy Authority I, LLC	609,015
TOTAL NONOPERATING REVENUES (EXPENSES)	1,108,175
LOSS BEFORE TRANSFERS	(1,642,939)
Transfers out to City of Virginia	(60,000)
CHANGE IN NET POSITION	(1,702,939)
TOTAL NET POSITION, JANUARY 1	54,592,099
TOTAL NET POSITION, DECEMBER 31	$ 52,889,160

The accompanying notes are an integral part of these financial statements.

DEPARTMENT OF PUBLIC UTILITIES
OF THE CITY OF VIRGINIA, MINNESOTA

STATEMENT OF CASH FLOWS
Year Ended December 31, 2023

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	$ 20,319,018
Cash payments to suppliers	(17,884,950)
Cash payments to employees	(3,656,282)
NET CASH USED BY OPERATING ACTIVITIES	(1,222,214)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Conversion loans issued	(214,053)
Conversion loan payments received	1,544,929
Grants income	1,120
Rentals and other income	92,661
Transfers out to City of Virginia	(60,000)
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	1,364,657
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from sale of equipment	20,000
Acquisition of capital assets	(3,495,271)
Principal paid on utility net revenue note	(313,142)
Principal paid on water tank maintenance agreement	(280,037)
Interest paid	(76,146)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(4,144,596)
CASH FLOWS FROM INVESTING ACTIVITIES	
Equity distribution from Laurentian Energy Authority I, LLC	9,041,667
Sale of investment in Laurentian Energy Authority I, LLC	759,890
Sale of investments	156,853
Gain on change in market value of investments	44,211
Interest received on investments	408,238
NET CASH PROVIDED BY INVESTING ACTIVITIES	10,410,859
NET INCREASE IN CASH AND CASH EQUIVALENTS	6,408,706
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (including $579,835 in restricted accounts)	10,309,476
CASH AND CASH EQUIVALENTS AT END OF YEAR (including $652,497 in restricted accounts)	$ 16,718,182

The accompanying notes are an integral part of these financial statements.

DEPARTMENT OF PUBLIC UTILITIES
OF THE CITY OF VIRGINIA, MINNESOTA

STATEMENT OF CASH FLOWS (Continued)
Year Ended December 31, 2023

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:		
Operating loss	$	(2,751,114)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation		2,239,706
Change in allowance for uncollectibles on conversion loans receivable		(186,000)
Net pension liability and deferred outflows and deferred inflows related to pensions		(41,325)
Other postemployment benefits (OPEB) payable and deferred outflows and deferred inflows related to OPEB		(645,464)
(Increase) decrease in:		
Accounts receivable		37,057
Other receivables		(79)
Inventories		54,281
Prepaid items		26,875
Increase (decrease) in:		
Accounts payable		(67,741)
Due to City of Virginia		44,411
Vacation and comp time benefits payable		(8,300)
Accrued payroll and related liabilities		10,274
Dental claims liability		(3,009)
Customer deposits payable		43,074
Energy assistance payable		29,588
Severance benefits payable		(4,448)
NET CASH USED BY OPERATING ACTIVITIES	$	(1,222,214)
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:		
Total capital asset additions	$	3,416,996
Accounts payable current year		(96,786)
Accounts payable prior year		1,212,621
Water tank maintenance agreement		(1,037,560)
Cash paid	$	3,495,271

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Reporting Entity

The Department of Public Utilities is an enterprise fund of the City of Virginia, Minnesota, and is included in the City's financial statements. Commission board members are appointed by the Virginia City Council. The Public Utilities Commission manages the electric, water, gas, steam heat and such other utilities as the Council may direct, by ordinance.

The accounting and reporting framework and the more significant accounting policies and practices are discussed in subsequent sections of this Note. The remainder of the Notes are organized to provide explanations, including required disclosures, of the Department's financial activities for the year ended December 31, 2023.

B. Basis of Presentation

The accounts of the Department are organized and operated on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements.

The following fund category (further divided by fund type) is used by the Department:

Proprietary Fund
Proprietary funds account for activities that are similar to those often found in the private sector. All assets, liabilities, equities, revenues, expenses, and payments relating to the government's business activities are accounted for through proprietary funds. The measurement focus is on determination of operating income, net position, changes in net position and cash flows. Operating revenues include charges for services. Operating expenses include costs of services, as well as, materials, contracts, personnel, and depreciation. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

Enterprise Fund
Enterprise funds account for operations that are financed in a manner similar to private business enterprises, where the intent is that costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

C. Measurement Focus and Basis of Accounting

Proprietary funds are accounted for using the economic resources measurement focus. With this measurement focus, all assets and deferred outflows of resources and all liabilities and deferred inflows of resources associated with the operation of these activities are included in the statement of net position. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in total net position.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The financial statements of proprietary funds are presented on the accrual basis of accounting. Under this method of accounting, revenues are recognized when earned and expenses are recorded when liabilities are incurred without regard to receipt or disbursement of cash. Grants and similar items are recognized when all requirements imposed by the provider have been met.

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

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

1. **Cash and Cash Equivalents**
   For cash flow statement purposes, cash and cash equivalents consist of petty cash, checking and savings accounts and short-term investments with original maturities of three months or less from the date of acquisition.

2. **Investments**
   Investments are accounted for at fair value. Income from investments, including changes in fair value of investments, is recognized when earned.

3. **Accounts Receivable**
   Accounts receivable are shown net of an allowance for uncollectibles. The allowance is calculated using historical collection data.

4. **Unbilled Revenues**
   Unbilled revenues represent December utility services not billed to customers until January of the subsequent year.

5. **Inventories**
   Gas inventory is maintained using a modified first-in, first-out (FIFO) approach. Costs are accumulated for spot gas purchases in a particular month and an average cost per unit is calculated. Costs of spot gas are based on the cost per unit of the oldest layer of inventory and charged to expense as consumed. All other inventories are stated at cost as determined by the average cost basis.

6. **Restricted Cash**
   Restricted cash are funds restricted by legal or contractual requirements as to their use.

   Customer Deposits
   Customers must deposit funds with the Department prior to the supply of utility services to guarantee the customer's payment for the services.

   Energy Assistance
   Eligible customers receive assistance with their utility payments from a third party. Overpayments on these accounts are held until charges come due.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

7. **Capital Assets**
   Capital assets, which include land, buildings, improvements, machinery and equipment, vehicles, and construction in progress are defined by the Department as assets with an initial, individual cost of more than $5,000. Such assets are recorded at 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.

   Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed.

   Buildings, improvements, machinery and equipment, and vehicles are depreciated using the straight line method over the estimated useful lives of the assets ranging from four to sixty years.

8. **Deferred Outflows of Resources**
   Deferred outflows of resources represent a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense) until then. The Department has two items that qualify for reporting in this category related to OPEB and pensions. See notes 15 and 16 for details.

9. **Compensated Absences**
   The Department permits employees to accumulate earned but unused vacation, comp time, and sick leave benefits. The vacation and comp time benefits are accrued when earned and reported as a fund liability. There is no liability for unpaid accumulated sick leave since the Department does not have a policy to pay any amounts when employees separate from service.

10. **Noncurrent Liabilities**
    Bonds payable are reported net of the applicable bond discount. Issuance costs are expensed as incurred.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

12. **Deferred Inflows of Resources**
    Deferred inflows of resources represent an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The Department has two items that qualify for reporting in this category related to OPEB and pensions. See notes 15 and 16 for details.

13. **Net Position**
    Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on its use by creditors, grantors, or laws or regulations of other governments.

E. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - CASH AND CASH EQUIVALENTS AND INVESTMENTS

"Cash and cash equivalents", "investments", and "restricted cash" recorded at December 31, 2023 are comprised of:

Petty cash	$ 3,300
Cash	16,599,425
Investments	196,589
Total	$ 16,799,314

Reconciliation to financial statements:

Statement of Net Position	
Cash and cash equivalents	$ 16,065,685
Investments	81,132
Total unrestricted cash, cash equivalents, and investments	16,146,817
Restricted cash	652,497
Total	$ 16,799,314

NOTE 2 - CASH AND CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)

Deposits

Custodial Credit Risk – Deposits

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Department will not be able to recover its deposits. The Department's deposit policy for custodial credit risk requires that all deposits shall be those allowable by state statutes and collateralization will be required on all demand deposit accounts, including checking, savings, and money market accounts, and non-negotiable certificates of deposit in excess of federal deposit insurance.

The Department maintains deposits at financial institutions authorized by the Public Utilities Commission. Minnesota statutes require that all Department deposits be protected by insurance, surety bond or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds. State statutes authorize the types of securities which may be pledged as collateral and require that those securities be held in safekeeping by the Department or in a financial institution other than that furnishing the collateral. At December 31, 2023, the carrying amount of the Department's deposits was $16,599,425 and the bank balance was $16,735,065. At December 31, 2023, $9,896,000 of the bank balances were covered by Federal Depository Insurance and $6,839,065 were covered by securities held by the pledging financial institution's agent in the Department's name.

Investments

As of December 31, 2023, the Department had the following investments:

		Maturity
Investment Type	Fair Value	Less than 2 years
Repurchase agreements	$ 81,131	$ 81,131
Money market funds	115,458	115,458
Total Fair Value	$ 196,589	$ 196,589

Custodial Credit Risk – Investments

For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the Department will not be able to recover the value of its investments or securities that are in the possession of an outside party. The Department's investment policy does not address custodial credit risk. The investment in repurchase agreements of $81,131 as of December 31, 2023 were collateralized with securities held by an institution other than the pledging bank, not in the Department's name.

Credit Risk and Concentration of Credit Risk

The Department's investment policy for credit risk or concentration of credit risk limits investments to those allowable by state statues and requires diversification of the investment portfolio so that the impact of potential losses from any type of security or from any one individual issuer will be minimized. State statutes authorize the Department to invest in qualified repurchase agreements, obligations of the U.S. government, obligations of the State of Minnesota or its municipalities, shares of certain investment companies, bankers' acceptance

NOTE 2 - CASH AND CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)

notes, commercial paper and guaranteed investment contracts. The Department places no limit on the amount the Department may invest in any one issuer and, as of December 31, 2023, had investments in repurchase agreements and money market funds that exceeded five percent of the Department's investments. The Department's investments in money market funds are not rated as to credit risk.

Interest Rate Risk
Interest rate risk is the risk that changes in interest rates of investments will adversely affect the fair value of an investment. The Department's investment policy minimizes interest rate risk by structuring the investment portfolio so that securities mature to meet cash flow requirements for ongoing operations, thus avoiding the need to sell securities on the open market prior to maturity.

Fair Value of Investments
The Department categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The three levels of the fair value hierarchy are as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs (other than quoted prices included within Level 1) that are observable for the asset or liability – either directly or indirectly.
- Level 3: Unobservable inputs – market data are not available and are developed using the best information available about the assumptions that market participants would use when pricing an asset or liability.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The Department's investments of $196,589 at December 31, 2023 are not subject to measurement.

NOTE 3 - INVENTORIES

Inventories consist of the following:

	2023
Natural gas storage	$ 7,261
Materials	535,630
Chemicals	4,833
Total	$ 547,724

NOTE 4 - INVESTMENT IN LAURENTIAN ENERGY AUTHORITY I, LLC

Laurentian Energy Authority I, LLC (LEA) is a joint venture formed by the Department and the Hibbing Public Utilities (HPUC) and is a limited liability company created under Minnesota Statutes, Section 452.25 and 471.59 and organized on January 31, 2005, under Minnesota Statutes Chapter 322B. LEA was created to supply 35 MW of biomass fueled electricity to Northern States Power Company (NSP), an operating subsidiary of Xcel Energy, as well as to supply steam to the Department and HPUC.

The management of the business and affairs of LEA are governed by a Board of Directors (Board). The Board consists of seven (7) directors. The General Manager and the acting President and Vice President of the Department and the General Manager and the acting Chairman and Vice Chairman of the HPUC are, by virtue of their positions, members of the Board. The remaining director is elected by a majority vote of the other directors.

Each member owned and operated a combined heat and power plant which provided both steam and electricity for distribution to its service area until 2018 when termination agreements were implemented.

The Department accounts for its investment in LEA using the equity method. The Department sold their share of the LEA to HPUC effective July 1, 2023. During the year ended December 31, 2023, the Department recorded a member distribution of $9,041,667, and a net gain on sale of investment of $609,015.

NOTE 5 - STEAM CONVERSION LOANS

The Department began converting some customers from steam to alternative heating sources, primarily natural gas. To aid some of their customers with the costs of converting to alternative sources of heat, the Department has established a construction-type conversion loan program where, in exchange for a promise to pay, the utility pays the costs associated with the conversion on the customer's behalf. The terms of the customer conversion loans vary; however, most loans have a ten-year term. The total balance of the conversion loans receivable at December 31, 2023 is $10,318,842 and $1,029,039 of the total balance is due within one year. In the Statement of Revenues, Expenses, and Changes in Net Position, the conversion loan receivables are shown net of an allowance for uncollectibles of $405,000.

Beginning Balance	Additions	Payments	Ending Balance
$ 11,649,718	$ 214,053	$ 1,544,929	$ 10,318,842

NOTE 6 - CAPITAL ASSETS

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

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	$ 240,570	$ -	$ -	$ 240,570
Construction in progress	3,211,878	3,416,996	(4,740,919)	1,887,955
Total capital assets, not being depreciated	3,452,448	3,416,996	(4,740,919)	2,128,525
Capital assets, being depreciated:				
Buildings	17,150,970	55,812	-	17,206,782
Improvements	57,975,483	2,247,664	(21,932)	60,201,215
Machinery and equipment	47,596,845	2,390,870	-	49,987,715
Vehicles	2,887,376	46,573	-	2,933,949
Total capital assets, being depreciated	125,610,674	4,740,919	(21,932)	130,329,661
Less accumulated depreciation for:				
Buildings	(10,852,067)	(388,336)	-	(11,240,403)
Improvements	(33,291,498)	(1,275,300)	21,932	(34,544,866)
Machinery and equipment	(42,682,926)	(436,994)	-	(43,119,920)
Vehicles	(2,117,481)	(139,076)	-	(2,256,557)
Total accumulated depreciation	(88,943,972)	(2,239,706)	21,932	(91,161,746)
Total capital assets, being depreciated, net	36,666,702	2,501,213	-	39,167,915
Total capital assets, net	$ 40,119,150	$ 5,918,209	$ (4,740,919)	$ 41,296,440

NOTE 7 - DUE TO CITY OF VIRGINIA

The Department acts as a billing and collection agent for garbage and sewage charges billed on behalf of the City of Virginia to City residents. The Department includes the garbage and sewage charges on its monthly utility billings and then makes monthly remittances to the City. As of December 31, 2023 the Department owed the following to the City:

	2023
Garbage service charges	$ 284,350
Sewage and sewage condensate charges	382,856
Mechanic/maintenance services	1,066
Diesel	548
Total	$ 668,820

NOTE 8 - COMPENSATED ABSENCES AND OTHER BENEFITS

Employees of the Department may accrue vacation and comp time pay as established in the personnel policies for non-represented employees and the AFSCME union contract. The Department's liability for vacation and comp time pay was $208,860 at December 31, 2023.

Under the personnel policies for non-represented employees, personal leave, the fifth and sixth weeks of vacation earned, vacation hours in excess of the eighty hour carryover and a sick leave bonus calculated as a reward for not using sick leave are contributed to the employee's health care savings account established with the Minnesota State Retirement System. The Department also contributes $500 for each Union employee hired after July 1, 2004 who has a balance of at least 350 sick leave hours at year end. The Department's liability for these benefits was $19,579 at December 31, 2023.

NOTE 9 - LONG-TERM DEBT

A utility revenue note was issued to finance upgrades to the natural gas plant and distribution supply lines. The Department is also liable for a long-term water tank maintenance agreement to finance a water tank overhaul.

Long-term debt payable at December 31, 2023 is comprised of the following:

	Issue Date	Interest Rates	Original Issue	Final Maturity	Principal Outstanding
Utility Net Revenue Note Series 2015A	2/10/2015	2.50-4.50%	$ 3,425,000	2/1/2027	$ 1,016,253
Water Tank Maintenance Agreement					
Short Elliot Hendrickson Inc.	8/16/2018	4.00%	$ 2,405,278	10/1/2028	1,531,602
Total Long-term Debt					$ 2,547,855

NOTE 9 - LONG-TERM DEBT (CONTINUED)

Changes in long-term debt

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Notes Payable					
Utility Net Revenue Note, Series 2015A	$ 1,329,395	$ -	$ (313,142)	$ 1,016,253	$ 321,061
Water Tank Maintenance Agreement Short Elliot Hendrickson Inc.	774,079	1,037,560	(280,037)	1,531,602	341,136
Total Long-term Debt	$ 2,103,474	$ 1,037,560	$ (593,179)	$ 2,547,855	$ 662,197

Principal and interest requirements to retire the long-term debt are as follows:

Year Ending December 31	Principal	Interest	Total
2024	662,197	83,008	745,205
2025	680,661	71,065	751,726
2026	709,234	40,385	749,619
2027	412,782	18,778	431,560
2028	82,981	3,319	86,300
	$ 2,547,855	$ 216,555	$ 2,764,410

All revenues net of specified expenses are pledged as security for repayment of the Utility Net Revenue Notes.

No interest was capitalized during 2023; interest incurred and charged to expense totaled $68,201 in 2023.

NOTE 10 - TRANSFERS

The Department transferred out $1,063,000 to the City of Virginia during the year ended December 31, 2020 to provide funding for the street lighting portion of an energy services project. The City anticipates the Department will realize energy savings due to the decreased purchase of energy. In return the Department has agreed to pay the City $60,000 annually for thirteen years in order for the City to utilize the realized energy savings.

NOTE 11 - COMMITMENTS AND CONTINGENCIES

Purchase Commitments
The Department has entered into various contracts and commitments with power and fuel suppliers. The contracts the Department operated under during 2023 and their expiration dates are as follows:

Electric	December 31, 2029
Gas transportation	October 31, 2028
Water treatment	December 31, 2026

Contract prices for the above are adjusted frequently throughout the year based on established formulas. Quantities purchased depend upon the current production needs of the Department.

NOTE 12 - JOINT POWERS

Northeastern Minnesota Municipal Power Agency
The City/Department is a member in a joint authority agreement with the Cities of Aitkin, Biwabik, Brainerd, Buhl, Ely, Gilbert, Grand Rapids, Hibbing, Keewatin, Mt. Iron, Pierz, Proctor, Randall, and Two Harbors, Minnesota for the purpose of securing an adequate, economical and reliable supply of electric energy. Each City appoints one director to the agency and member cities' votes are weighted based on a formula outlined in the agreement. The agency agreement may be terminated by a two-thirds vote of its members.

NOTE 13 - CONCENTRATIONS OF CREDIT RISK

Concentrations of credit risk with respect to trade receivables are limited due to the large number of customers comprising the Department's customer base and their dispersion across different industries.

NOTE 14 - RISK MANAGEMENT

The Department is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To cover these risks of loss, the Department, as allowed under state statutes, joined the League of Minnesota Cities Insurance Trust Fund, a public entity risk pool currently operating as a common risk management and insurance program for its members. The Department pays annual premiums to the Trust Fund for its insurance coverage and retains the risk for the deductible portions of the insurance. The League of Minnesota Cities Insurance Trust Fund is self-sustaining through member premiums and reinsures through commercial companies for claims in excess of the limits as set by the Trustees. There were no significant increases or reductions in insurance from the previous year or settlements in excess of insurance for any of the past three years.

The Department self-insures its employee dental benefits plan. The estimated expenditures from uninsured claims, including incurred but not reported claims, are accrued as claims occur. An analysis of dental claims activities is presented below:

NOTE 14 - RISK MANAGEMENT (CONTINUED)

Year Ended	Claims Liability Beginning of Year	Provisions for Current Year Claims	Claims Paid	Claims Liability End of Year
December 31, 2023	$ 121,254	$ 108,644	$ 111,653	$ 118,245

NOTE 15 - SEVERANCE AND OTHER POSTEMPLOYMENT BENEFITS

SEVERANCE BENEFITS

The Department provides severance benefits to eligible employees as established by contracts with bargaining units or other employment contracts. These severance benefits are based on accumulated unused sick leave or years of service and the wage rate at the date of retirement.

Under the personnel policies for non-represented employees, employees who retire at an age acceptable to PERA, with twenty years of service or more, will receive as severance eight hours of pay for each year of employment. The amount will be added to the employee's heath care savings account established with the Minnesota State Retirement System. The total liability for this benefit at December 31, 2023 was $8,917.

Under the AFSCME union contract, employees who retire with twenty years of service or more will receive one day of pay for each year of service as severance. The Department paid out $14,666 for this benefit in 2023. The liability for this benefit at December 31, 2023 was $28,861.

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

	2023
Beginning balance	$ 42,226
Additions	10,218
Reductions	(14,666)
Ending balance	$ 37,778

OTHER POSTEMPLOYMENT BENEFITS

Plan Description

The Department operates a single-employer retiree benefit plan that provides postemployment health insurance benefits to eligible employees and their spouses. The liability is reported on the Department's statement of net position and is reported under GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,* which requires the liability of the Department's defined benefit OPEB (net OPEB liability) to be measured as the portion of the present value of projected benefit payments to be provided to current active and inactive employees that is attributed to those employees' past periods of service (total OPEB liability), less the amount of the OPEB plan's fiduciary net position.

NOTE 15 - SEVERANCE AND OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Benefits Provided

Pursuant to the provisions of contracts with bargaining units or other employment contracts, former employees who retire from the Department and eligible dependents, may continue to participate in the Department's plan for medical, dental and life coverages. The Department subsidizes the premium rates paid by the retirees by allowing them to participate in the plan at reduced or blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the plan on average than those of active employees. Additionally, certain retirees receive insurance coverage at a lower (explicitly subsidized) premium rate than active employees. The benefits provided under this defined benefit plan are provided for life. Retirees are required to enroll in the Federal Medicare program for their primary coverage as soon as they are eligible.

Plan Membership

At December 31, 2022 (valuation date/census), plan membership consisted of the following:

Active employees electing coverage	47
Active employees waiving coverage	4
Retirees electing coverage	88
	139

Contributions

The Department and retirees make contributions toward health insurance premiums based on their employment contracts. During the year ended December 31, 2023, the Department pays postemployment benefits on a pay-as-you-go method. The Department has not advance-funded or established a funding methodology. The Department will continue to contribute towards the medical premium for grandfathered retirees and employees hired before dates specified in employee contracts. The contribution amount is either part of or the full amount of the medical premium and continues for the life of the retiree. The Department will not pay any premiums for future retirees that were hired after dates specified in employee contracts.

Total OPEB Liability

The Department's total OPEB liability of $8,465,490 was measured as of December 31, 2023, and was determined by an actuarial valuation.

Actuarial Methods and Assumptions

The total OPEB liability was determined by an actuarial valuation as of December 31, 2023, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

NOTE 15 - SEVERANCE AND OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Discount rate	3.77%
Long-term expected investment return	N/A
Inflation rate	2.50%
Mortality	
General employees	From the July 1, 2022 PERA of Minnesota General Employees Retirement Plan actuarial valuation, mortality rates were based on the Pub-2010 General mortality tables with projected mortality improvements based on scale MP-2021, and other adjustments.
Healthcare cost trend rate	6.80% for FY2022, gradually decreasing over several decades to an ultimate rate of 3.90% in FY 2075 and later years.

The discount rate was based on the Fidelity 20-Year Municipal GO AA Index because it meets the GASB requirements and is based on a large amount of municipal security data.

Changes in the Total OPEB Liability

The measurement date (when assets and liabilities are measured) is December 31, 2023.

	Total OPEB Liability
Balance at 12/31/2022	$ 8,426,189
Changes for the year:	
Service cost	21,938
Interest	329,173
Differences between expected and actual experience	78,658
Changes in assumptions	250,340
Benefit payments paid directly	(540,745)
Implicit rate subsidy	(100,063)
Net changes	39,301
Balance at 12/31/2023	$ 8,465,490

Discount Rate

The discount rate used to measure the total OPEB liability was 3.77%, a decrease from the 4.05% discount rate used in the last actuarial report measured as of December 31, 2022.

NOTE 15 - SEVERANCE AND OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of the Department, as well as what the Department's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.77%) or 1-percentage-point higher (4.77%) than the current discount rate.

	1% Decrease (2.77%)	Current Discount Rate (3.77%)	1% Increase (4.77%)
Net OPEB liability	$ 9,470,858	$ 8,465,490	$ 7,625,240

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following represents the net OPEB liability of the Department, as well as what the Department's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates.

	1% Decrease	Current Trend Rate	1% Increase
Net OPEB liability	$ 7,614,375	$ 8,465,490	$ 9,471,827

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended December 31, 2023, the Department recognized OPEB expense of $(4,656). At December 31, 2023, the Department reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual liability	$ 269,958	$ -
Change in actuarial assumptions	218,703	1,330,041
Total	$ 488,661	$ 1,330,041

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

Year Ended December 31:	OPEB Expense Amount
2024	$ (457,787)
2025	$ (398,263)
2026	$ 14,670

NOTE 16 - DEFINED BENEFIT PENSION PLAN

A. Plan Description

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

<u>General Employees Retirement Plan</u>

All full-time and certain part-time employees of the Department of Public Utilities of the City of Virginia, Minnesota 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.

<u>General Employees Plan Benefits</u>

General Employees Plan benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for Coordinated members is 1.2 percent for each of the first ten years of service and 1.7 percent for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7 percent for all years of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

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

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

NOTE 16 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

C. Contributions

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

General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in fiscal year 2023 and the Department was required to contribute 7.50 percent for Coordinated Plan members. The Department's contributions to the General Employees Fund for the year ended December 31, 2023 were $265,466. The Department'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 Department reported a liability of $2,639,371 for its proportionate share of the General Employees Fund's net pension liability. The Department'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 Department totaled $72,757.

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 Department's proportionate share of the net pension liability was based on the Department'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 Department's proportionate share was 0.0472 percent at the end of the measurement period and 0.0584 percent for the beginning of the period.

Department's proportionate share of the net pension liability	$ 2,639,371
State of Minnesota's proportionate share of the net pension liability associated with the Department	72,757
Total	$ 2,712,128

There were no provision changes during the measurement period.

For the year ended December 31, 2023, the Department recognized pension expense of $69,516 for its proportionate share of the General Employees Plan's pension expense. In addition, the Department recognized an additional $327 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of $16 million to the General Employees Fund.

At December 31, 2023, the Department 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:

NOTE 16 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 91,617	$ 23,999
Changes in actuarial assumptions	562,561	723,429
Net difference between projected and actual investment earnings	-	138,495
Changes in proportion	-	772,538
Contributions paid to PERA subsequent to the measurement date	132,757	-
Total	$ 786,935	$ 1,658,461

The $132,757 reported as deferred outflows of resources related to pensions resulting from Department contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2024. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	Pension Expense Amount
2024	$ (140,526)
2025	$ (726,582)
2026	$ (79,918)
2027	$ (57,257)

Total Pension Expense
The total pension expense for all plans recognized by the Department for the year ended December 31, 2023 was $220,813.

E. Long-Term Expected Return on Investment

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

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

NOTE 16 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

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 percent. This assumption is based on a review of inflation and investments return assumptions from a number of national investment consulting firms. The review provided a range of return investment return rates deemed to be reasonable by the actuary. An investment return of 7.0 percent was deemed to be within that range of reasonableness for financial reporting purposes.

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

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

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

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

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

<u>General Employees Fund</u>
Changes in Actuarial Assumptions:

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

Changes in Plan Provisions:

- An additional one-time direct state aid contribution of $170.1 million will be contributed to the Plan on October 1, 2023.
- The vesting period of those hired after June 30, 2010, was changed from five years of allowable service to three years of allowable service.
- The benefit increase delay for early retirements on or after January 1, 2024, was eliminated.
- A one-time, non-compounding benefit increase of 2.5 percent 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 to measure the total pension liability in 2023 was 7.0 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Plan was projected to be available to make all projected future benefit payments of current plan members.

NOTE 16 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

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 Department'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 Department's proportionate share of the net pension liability would be if it were calculated using a discount rate one percentage point lower or one percentage point higher than the current discount rate:

Sensitivity Analysis		
Net Pension Liability at Different Discount Rates		
	General Employees Fund	
1% Lower	6.00%	$ 4,669,260
Current Discount Rate	7.00%	$ 2,639,371
1% Higher	8.00%	$ 969,711

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.

REQUIRED SUPPLEMENTARY INFORMATION

DEPARTMENT OF PUBLIC UTILITIES
OF THE CITY OF VIRGINIA, MINNESOTA

SCHEDULE OF CHANGES IN THE DEPARTMENT'S NET OPEB LIABILITY
AND RELATED RATIOS
Year Ended December 31, 2023

	2023	2022	2021	2020	2019	2018
Total OPEB Liability						
Service cost	$ 21,938	$ 88,032	$ 81,685	$ 99,647	$ 81,284	$ 85,218
Interest	329,173	199,771	218,069	294,627	398,697	382,497
Differences between expected and actual experience	78,658	448,198	13,091	(157,460)	-	-
Changes in assumptions	250,340	(2,791,623)	224,018	580,676	142,733	(572,001)
Benefit payments	(540,745)	(476,042)	(490,908)	(495,624)	(573,111)	(554,373)
Implicit rate subsidy	(100,063)	(98,564)	(113,535)	(119,496)	(159,584)	(92,119)
Net change in OPEB liability	39,301	(2,630,228)	(67,580)	202,370	(109,981)	(750,778)
Total OPEB Liability - beginning	8,426,189	11,056,417	11,123,997	10,921,627	11,031,608	11,782,386
Total OPEB Liability - ending	$ 8,465,490	$ 8,426,189	$ 11,056,417	$ 11,123,997	$ 10,921,627	$ 11,031,608
Payroll for measurement period	$ 3,674,206	$ 4,397,500	$ 4,405,987	$ 4,828,436	$ 4,532,417	$ 4,344,946
Net OPEB Liability as a percent of employee payroll	230.4%	191.6%	250.9%	230.4%	241.0%	253.9%

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

See notes to required supplementary information.

DEPARTMENT OF PUBLIC UTILITIES
OF THE CITY OF VIRGINIA, MINNESOTA

SCHEDULES OF DEPARTMENT'S PROPORTIONATE SHARE OF NET PENSION LIABILITY AND DEPARTMENT'S CONTRIBUTIONS FOR DEFINED BENEFIT PENSION PLAN
Year Ended December 31, 2023

SCHEDULE OF DEPARTMENT'S PROPORTIONATE SHARE OF NET PENSION LIABILITY PUBLIC EMPLOYEES GENERAL EMPLOYEES RETIREMENT FUND

Fiscal Year Ending	Employer's Proportionate Share (Percentage) of the Net Pension Liability (Asset)	Employer's Proportionate Share (Amount) of the Net Pension Liability (Asset) (a)	State's Proportionate Share (Amount) of the Net Pension Liability Associated with the Department (b)	Employer's Proportionate Share of the Net Pension Liability and the State's Proportionate Share of the Net Pension Liability Associated with the Department (a+b)	Employer's Covered Payroll (c)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll ((a+b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
6/30/23	0.0472%	$ 2,639,371	$ 72,757	$ 2,712,128	$ 3,757,005	72.19%	83.10%
6/30/22	0.0584%	$ 4,625,299	$ 135,573	$ 4,760,872	$ 4,376,735	108.78%	76.70%
6/30/21	0.0623%	$ 2,660,489	$ 81,243	$ 2,741,732	$ 4,482,653	61.16%	87.00%
6/30/20	0.0639%	$ 3,831,097	$ 118,190	$ 3,949,287	$ 4,558,783	86.63%	79.10%
6/30/19	0.0611%	$ 3,378,082	$ 104,995	$ 3,483,077	$ 4,321,761	80.59%	80.20%
6/30/18	0.0637%	$ 3,533,815	$ 115,934	$ 3,649,749	$ 4,284,133	85.19%	79.53%
6/30/17	0.0728%	$ 4,647,504	$ 58,429	$ 4,705,933	$ 4,689,160	100.36%	75.90%
6/30/16	0.0722%	$ 5,862,282	$ 76,519	$ 5,938,801	$ 4,479,560	132.58%	68.91%
6/30/15	0.0744%	$ 3,855,794	$ -	$ 3,855,794	$ 4,373,867	88.16%	78.19%

Note: This schedule is provided prospectively beginning with the fiscal year ended December 31, 2015.
Note: For purposes of this schedule, covered payroll is defined as "pensionable wages".

SCHEDULE OF DEPARTMENT'S CONTRIBUTIONS PUBLIC EMPLOYEES GENERAL EMPLOYEES RETIREMENT FUND

Fiscal Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (d)	Contributions as a Percentage of Covered Payroll (b/d)
12/31/23	$ 265,466	$ 265,466	$ -	$ 3,539,548	7.50%
12/31/22	$ 305,659	$ 305,659	$ -	$ 4,075,457	7.50%
12/31/21	$ 325,631	$ 325,631	$ -	$ 4,341,744	7.50%
12/31/20	$ 354,588	$ 354,588	$ -	$ 4,727,839	7.50%
12/31/19	$ 335,149	$ 335,149	$ -	$ 4,468,653	7.50%
12/31/18	$ 316,995	$ 316,995	$ -	$ 4,226,600	7.50%
12/31/17	$ 333,176	$ 333,176	$ -	$ 4,442,347	7.50%
12/31/16	$ 349,482	$ 349,482	$ -	$ 4,659,760	7.50%
12/31/15	$ 330,549	$ 330,549	$ -	$ 4,407,321	7.50%

Note: This schedule is provided prospectively beginning with the fiscal year ended December 31, 2015.
Note: For purposes of this schedule, covered payroll is defined as "pensionable wages".

See notes to required supplementary information.

NOTE 1 - POSTEMPLOYMENT BENEFIT PLAN CHANGES IN ACTUARIAL ASSUMPTIONS AND METHODS

2023 Changes

The following change was recognized under GASB 75 during the fiscal year:

- The discount rate was changed from 4.05 percent as of 12/31/2022 to 3.77 percent as of 12/31/2023 based on updated 20-year municipal bond rates as of each measurement date.

2022 Changes

The following change was recognized under GASB 75 during the fiscal year:

- The discount rate was changed from 1.84 percent as of 12/31/2021 to 4.05 percent as of 12/31/2022 based on updated 20-year municipal bond rates as of each measurement date.
- Healthcare trend rates were reset to reflect updated cost increase expectations.
- Medical per capita claims costs were updated to reflect recent experience, including an adjustment to reflect age/gender based risk scores published by the Society of Actuaries.
- Withdrawal, retirement, mortality, and salary increase rates were updated from the rates used in the 7/1/2020 PERA General Employees Plan valuation to the rates used in the 7/1/2022 valuation.
- The inflation assumption was changed from 2.25 percent to 2.50 percent based on an updated historical analysis of inflation rates and forward-looking market expectations.

2021 Changes

The following change was recognized under GASB 75 during the fiscal year:

- The discount rate was changed from 2.00 percent as of 12/31/2020 to 1.84 percent as of 12/31/2021 based on updated 20-year municipal bond rates as of each measurement date.

2020 Changes

The following changes were recognized under GASB 75 during the fiscal year:

- The discount rate was changed from 2.75 percent as of 12/31/2019 to 2.00 percent as of 12/31/2020 based on updated 20-year municipal bond rates as of each measurement date.
- Healthcare trend rates were reset to reflect updated cost increase expectations.
- Medical per capita claims costs were updated to reflect recent experience and new plan offerings, including an adjustment to reflect age/gender based risk scores published by the Society of Actuaries.
- Withdrawal, retirement, mortality and salary increase rates were updated from the rates used in the 7/1/2018 PERA General Employees Plan valuation to the rates used in the 7/1/2020 valuation.
- The percent of future retirees assumed to elect spousal dental coverage at retirement changed from 75 percent to 50 percent to reflect recent plan experience.
- The inflation assumption changed from 2.50 percent to 2.25 percent based on an updated historical analysis of inflation rates and forward looking market expectations.

2019 Changes

The following changes were recognized under GASB 75 during the fiscal year:

- The discount rate was changed from 3.71 percent as of 12/31/2018 to 2.75 percent as of 12/31/2019 based on updated 20-year municipal bond rates as of each measurement date.
- The medical trends rates were updated to exclude the Affordable Care Act's Excise Tax on high-cost health insurance plans due to its repeal.

NOTE 1 - POSTEMPLOYMENT BENEFIT PLAN CHANGES IN ACTUARIAL ASSUMPTIONS AND METHODS (CONTINUED)

2018 Changes

The following change was recognized under GASB 75 during the fiscal year:

- The discount rate was changed from 3.31 percent as of 12/31/2017 to 3.71 percent as of 12/31/2018 based on updated 20-year municipal bond rates as of each measurement date.

NOTE 2 - PUBLIC EMPLOYEES GENERAL EMPLOYEES RETIREMENT FUND CHANGES IN ACTUARIAL ASSUMPTIONS AND PLAN PROVISIONS

2023 Changes

Changes in Actuarial Assumptions:

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

Changes in Plan Provisions:

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

2022 Changes

Changes in Actuarial Assumptions:

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

Changes in Plan Provisions:

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

2021 Changes

Changes in Actuarial Assumptions:

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

Changes in Plan Provisions:

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

2020 Changes

Changes in Actuarial Assumptions:

- The price inflation assumption was decreased from 2.50 percent to 2.25 percent.
- The payroll growth assumption was decreased from 3.25 percent to 3.00 percent.
- Assumed salary increase rates were changed as recommended in the June 30, 2019 experience study. The net effect is assumed rates that average 0.25 percent less than previous rates.

NOTE 2 - PUBLIC EMPLOYEES GENERAL EMPLOYEES RETIREMENT FUND CHANGES IN ACTUARIAL ASSUMPTIONS AND PLAN PROVISIONS (CONTINUED)

- Assumed rates of retirement were changed as recommended in the June 30, 2019 experience study. The changes result in more unreduced (normal) retirements and slightly fewer Rule of 90 and early retirements.
- Assumed rates of termination were changed as recommended in the June 30, 2019 experience study. The new rates are based on service and are generally lower than the previous rates for years 2-5 and slightly higher thereafter.
- Assumed rates of disability were changed as recommended in the June 30, 2019 experience study. The change results in fewer predicted disability retirements for males and females.
- The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 General Mortality table, with adjustments. The base mortality table for disabled annuitants was changed from the RP-2014 disabled annuitant mortality table to the Pub-2010 General/Teacher disabled annuitant mortality table, with adjustments.
- The mortality improvement scale was changed from Scale MP-2018 to Scale MP-2019.
- The assumed spouse age difference was changed from two years older for females to one year older.
- The assumed number of married male new retirees electing the 100 percent Joint & Survivor option changed from 35 percent to 45 percent. The assumed number of married female new retirees electing the 100 percent Joint & Survivor option changed from 15 percent to 30 percent. The corresponding number of married new retirees electing the Life annuity option was adjusted accordingly.

Changes in Plan Provisions:

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

2019 Changes

Changes in Actuarial Assumptions:

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

Changes in Plan Provisions:

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

2018 Changes

Changes in Actuarial Assumptions:

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

Changes in Plan Provisions:

- The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024.
- Interest credited on member contributions decreased from 4.00 percent to 3.00 percent, beginning July 1, 2018.

NOTE 2 - PUBLIC EMPLOYEES GENERAL EMPLOYEES RETIREMENT FUND CHANGES IN ACTUARIAL ASSUMPTIONS AND PLAN PROVISIONS (CONTINUED)

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

2017 Changes

Changes in Actuarial Assumptions:

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

Changes in Plan Provisions:

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

2016 Changes

Changes in Actuarial Assumptions:

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

Changes in Plan Provisions:

- There have been no changes since the prior valuation.

2015 Changes

Changes in Actuarial Assumptions:

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

NOTE 2 - PUBLIC EMPLOYEES GENERAL EMPLOYEES RETIREMENT FUND CHANGES IN ACTUARIAL ASSUMPTIONS AND PLAN PROVISIONS (CONTINUED)

Changes in Plan Provisions:

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

OTHER INFORMATION

DEPARTMENT OF PUBLIC UTILITIES
OF THE CITY OF VIRGINIA, MINNESOTA

SCHEDULE OF DEPARTMENTAL REVENUES AND EXPENSES
Year Ended December 31, 2023
(unaudited)

	Electric, Water, and Steam Production	Electric	Water	Gas	Steam	Support Services	Total Before Eliminating Entries	Eliminating Entries	Total
OPERATING REVENUES									
Revenue from sales and services	$ -	$ 12,308,844	$ 1,832,109	$ 4,931,268	$ 1,140,564	$ -	$ 20,212,785	$ -	$ 20,212,785
Other operating revenues	-	137,250	755	120	14	-	138,139	-	138,139
Interdepartmental sales	-	119,254	56,270	3,746	53,615	-	232,885	232,885	-
TOTAL OPERATING REVENUES	-	12,565,348	1,889,134	4,935,134	1,194,193	-	20,583,809	232,885	20,350,924
OPERATING EXPENSES									
Commodity costs	-	6,971,313	-	3,326,548	-	-	10,297,861	-	10,297,861
Salaries	1,138,389	451,762	221,781	273,710	242,103	1,305,672	3,633,417	-	3,633,417
Benefits	550,596	184,956	125,269	124,762	150,089	409,445	1,545,117	-	1,545,117
Communications	2,186	-	-	-	-	59,841	62,027	-	62,027
Contract services	1,360	-	-	-	2,310	51,849	55,519	-	55,519
Fees, dues, and miscellaneous	41,658	100,447	34,514	26,527	-	(90,403)	112,743	-	112,743
Insurance	287,509	31,370	45,266	2,627	2,741	54,491	424,004	-	424,004
Operating supplies	2,212,849	25,747	9,484	7,509	5,500	112,343	2,373,432	-	2,373,432
Professional services	76,021	11,484	16,310	44,163	-	119,595	267,573	-	267,573
Rent	-	-	-	-	-	432	432	-	432
Repairs and maintenance	890,585	82,187	120,998	46,864	153,644	403,272	1,697,550	-	1,697,550
Steam conversion costs	-	-	-	-	200,000	-	200,000	-	200,000
Travel and transportation	1,060	1,456	249	476	45	4,290	7,576	-	7,576
Utilities	294,659	657	13,497	3,919	56,708	48,526	417,966	(232,885)	185,081
Depreciation	-	334,715	714,328	299,532	734,480	156,651	2,239,706	-	2,239,706
	5,496,872	8,196,094	1,301,696	4,156,637	1,547,620	2,636,004	23,334,923	(232,885)	23,102,038
Allocated costs									
Cost of production	(5,496,872)	-	422,269	-	5,074,603	-	-	-	-
Administration	-	928,019	155,486	126,103	14,692	(1,224,300)	-	-	-
Billing	-	431,155	326,506	266,855	21,976	(1,046,492)	-	-	-
Engineering	-	59,639	59,639	59,640	59,639	(238,557)	-	-	-
Warehousing	-	52,182	39,516	32,297	2,660	(126,655)	-	-	-
TOTAL OPERATING EXPENSES	-	9,667,089	2,305,112	4,641,532	6,721,190	-	23,334,923	(232,885)	23,102,038
OPERATING INCOME (LOSS)	-	2,898,259	(415,978)	293,602	(5,526,997)	-	(2,751,114)	-	(2,751,114)
NONOPERATING REVENUES (EXPENSES)									
Interest income	-	322,066	53,960	43,764	5,099	-	424,889	-	424,889
Rentals and other income	-	26,418	66,243	-	-	-	92,661	-	92,661
Gain (loss) on change in market value of investments	-	33,511	5,615	4,554	531	-	44,211	-	44,211
Interest expense and other	-	(22,828)	(43,891)	(16,816)	(186)	-	(83,721)	-	(83,721)
Gain (loss) on disposal of equipment	-	20,000	-	-	-	-	20,000	-	20,000
Grant income	-	-	-	-	-	1,120	1,120	-	1,120
Net gain from joint venture	-	609,015	-	-	-	-	609,015	-	609,015
TOTAL NONOPERATING REVENUES (EXPENSES)	-	988,182	81,927	31,502	5,444	1,120	1,108,175	-	1,108,175
LOSS BEFORE TRANSFERS	-	3,886,441	(334,051)	325,104	(5,521,553)	1,120	(1,642,939)	-	(1,642,939)
Transfers out to City of Virginia	-	(60,000)	-	-	-	-	(60,000)	-	(60,000)
CHANGE IN NET POSITION	$ -	$ 3,826,441	$ (334,051)	$ 325,104	$ (5,521,553)	$ 1,120	$ (1,702,939)	$ -	$ (1,702,939)

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

To the Members of the Public Utilities Commission
Department of Public Utilities
City of Virginia, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards)*, the financial statements of the Department of Public Utilities of the City of Virginia, Minnesota as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the Department of Public Utilities of the City of Virginia, Minnesota's basic financial statements, and have issued our report thereon dated May 15, 2024.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Department of Public Utilities of the City of Virginia, Minnesota'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department of Public Utilities of the City of Virginia, Minnesota's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department of Public Utilities of the City of Virginia, Minnesota's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2023-001 and 2023-002 that we consider to be significant deficiencies.

Report on Compliance and Other Matters

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

Minnesota Legal Compliance

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

Other Matters

We noted certain matters that we reported to management of the Department of Public Utilities of the City of Virginia, Minnesota in a separate letter dated May 15, 2024, included under this cover.

Department of Public Utilities of the City of Virginia, Minnesota's Response to Findings

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

Purpose of This Report

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

Walker, Giroux & Hahne, LLC

Virginia, Minnesota
May 15, 2024

DEPARTMENT OF PUBLIC UTILITIES
OF THE CITY OF VIRGINIA, MINNESOTA

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended December 31, 2023

Prior Audit Financial Statement Findings

FINDING 2022-001. SEGREGATION OF DUTIES

Summary of Condition
Due to the limited number of personnel within the Department's business office, the segregation of accounting functions necessary to ensure adequate internal accounting control is not possible.

Summary of Corrective Action Previously Reported
Management is monitoring transactions and the structure of duties of office personnel to help ensure as much segregation of duties as possible within the City's staffing limitations and funding constraints.

Current Status
Ongoing.

FINDING 2022-002. LACK OF CONTROL OVER FINANCIAL REPORTING PROCESS

Summary of Condition
Management requested that the auditor prepare a draft of the Department's financial statements, including related notes to the financial statements. Management reviewed, approved, and accepted responsibility for those financial statements prior to their issuance.

Summary of Corrective Action Previously Reported
Management determined that the cost and training involved to review or prepare the Department's financial statements exceeded the benefit that would result.

Current Status
Ongoing.

SCHEDULE OF FINDINGS AND RESPONSES
Year Ended December 31, 2023

2023-001. SEGREGATION OF DUTIES

Criteria
The concentration of duties and responsibilities in a limited number of individuals is not desirable from an internal accounting control point of view.

Condition
Due to the limited number of personnel within the Department's business office, the segregation of accounting functions necessary to ensure adequate internal accounting control is not possible.

Effect
Because of the weakness in segregation of duties, the Department has not provided adequate internal control.

Cause
This occurred because of staffing limitations caused by fiscal constraints.

Recommendations
Officials and management of the Department should constantly be aware of this condition, attempt to segregate duties as much as possible, and provide oversight to compensate for this deficiency.

Views of Responsible Officials and Planned Corrective Action
Management agrees with the audit finding. The Public Utilities Commission will attempt to monitor transactions and structure the duties of office personnel to help ensure as much segregation of duties as possible within the Department's staffing limitations and funding constraints.

2023-002. LACK OF CONTROL OVER FINANCIAL REPORTING PROCESS

Criteria and Condition
As part of the audit, management requested that the auditor prepare a draft of the Department's financial statements, including the related notes to financial statements. Management reviewed, approved, and accepted responsibility for those financial statements prior to their issuance.

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

Cause
This occurred because of staffing limitations caused by fiscal constraints.

Recommendations
In order to provide controls over the financial statement preparation services at an appropriate level, we suggest management establish effective review policies and procedures.

Views of Responsible Officials and Planned Corrective Action
Management agrees with the audit finding and has determined that the cost and training involved to review or prepare the Department's financial statements exceeds the benefit that would result.

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**REPRESENTATION OF DEPARTMENT OF PUBLIC UTILITIES
OF THE CITY OF VIRGINIA, MINNESOTA**

**CORRECTIVE ACTION PLAN
Year Ended December 31, 2023**

**Finding Number: 2023-001
Finding Title: SEGREGATION OF DUTIES**

Name of Contact Person Responsible for Corrective Action
Jeff Marwick, President

Corrective Action Planned
The Public Utilities Commission will attempt to monitor transactions and structure the duties of office personnel to help ensure as much segregation of duties as possible within the Department's staffing limitations and funding constraints.

Anticipated Completion Date
Ongoing.

**Finding Number: 2023-002
Finding Title: LACK OF CONTROL OVER FINANCIAL REPORTING PROCESS**

Name of Contact Person Responsible for Corrective Action
Jeff Marwick, President

Corrective Action Planned
Management has determined that the cost and training involved to review or prepare the Department's financial statements exceeds the benefit that would result.

Anticipated Completion Date
Ongoing.

Jeff Marwick, President

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MANAGEMENT LETTER

To the Members of the Public Utilities Commission
Department of Public Utilities
City of Virginia, Minnesota

In planning and performing our audit of the financial statements of the Department of Public Utilities of the City of Virginia, Minnesota as of and for the year ended December 31, 2023, in accordance with auditing standards generally accepted in the United States of America, we considered the Department of Public Utilities of the City of Virginia, Minnesota's system of internal control over financial reporting (internal control) as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control.

However, during our audit we became aware of deficiencies in internal control other than significant deficiencies and material weaknesses and matters that are opportunities for strengthening internal controls and operating efficiency. A separate report dated May 15, 2024, included under this cover, contains our communication of significant deficiencies in the Department's internal control. This letter does not affect our report dated May 15, 2024, on the financial statements of the Department of Public Utilities of the City of Virginia, Minnesota.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various Department personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. Our comments and suggestions are summarized as follows:

1. The Frandsen Bank and Trust bank confirmation we received indicated that an employee fund bank account has the same Employer Identification Number (EIN) as the Department. The employee fund bank account is not an account of the Department and should not use the Department's EIN.

2. The software used for inventory is supposed to be calculating the inventory value using an average cost, but the inventory listing is displaying incorrect amounts. We recommend that Department personnel continue to pursue how this can be corrected with their software vendor.

3. Additional procedures could be implemented to maintain proper internal controls over wire transfers. The Department has appropriately segregated duties by limiting/approving personnel that are authorized to make wire transfers and by having another staff member (with no wire transfer authorization) reconcile bank statements to the general ledger. However, to maximize internal control, we suggest the commission approve a list of authorized vendors (including a list of electronic identifiers for each vendor) so staff in charge of bank reconciliations can easily determine whether wire transfers are made to commission approved/authorized vendors.

This communication is intended solely for the information and use of the Public Utilities Commission and management of the Department of Public Utilities of the City of Virginia, Minnesota, and the State of Minnesota, and is not intended to be, and should not be, used by anyone other than these specified parties.

Walker, Giroux & Hahne, LLC

Virginia, Minnesota
May 15, 2024