

ANNUAL FINANCIAL REPORT

CITY OF TONKA BAY
TONKA BAY, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2024

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City of Tonka Bay, Minnesota
Annual Financial Report
Table of Contents
For the Year Ended December 31, 2024

	<u>Page No.</u>
Introductory Section	
Elected and Appointed Officials	7
Financial Section	
Independent Auditor's Report	11
Financial Statements - Regulatory Basis	
Governmental Funds	
Statement of Balances Arising from Cash Transactions	17
Statement of Receipts, Disbursements and Changes in Cash Fund Balances	18
Proprietary Funds	
Statement of Net Position	19
Statement of Revenues, Expenses and Changes in Net Position	20
Statement of Cash Flows	22
Notes to the Financial Statements	23
Required Supplementary Information	
Schedule of Employer's Share of Public Employees Retirement Association Net Pension Liability - General Employees Retirement Fund	44
Schedule of Employer's Public Employees Retirement Association Contributions - General Employees Retirement Fund	44
Notes to the Required Supplementary Information - General Employees Retirement Fund	44
Combining and Individual Fund Financial Statements and Schedules	
Nonmajor Governmental Funds	
Combining Statement of Balances Arises from Cash Transactions	47
Combining Statement of Receipts, Disbursements and Changes in Cash Fund Balances General Fund	48
Budgetary Comparison Schedule - Regulatory Basis	49
Special Revenue Funds	
Combining Statement of Balances Arising from Cash Transactions	52
Combining Statement of Receipts, Disbursements and Changes in Cash Fund Balances	53
Capital Project Funds	
Combining Statement of Balances Arising from Cash Transactions	54
Combining Statement of Receipts, Disbursements and Changes in Cash Fund Balances	55
Nonmajor Proprietary Funds	
Combining Statement of Net Position	56
Combining Statement of Revenues, Expenses and Changes in Net Position	57
Combining Statement of Cash Flows	58
Summary Financial Report	
Receipts and Disbursements for General Operations - Governmental Funds	59
Supplementary Information - Unaudited	
Schedule of Accounts Receivable	62
Schedule of Accounts Payable and Contingent Liabilities	62
Other Required Reports	
Independent Auditor's Report on Minnesota Legal Compliance	65
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 <i>Government Auditing Standards</i>	66
Schedule of Findings and Responses	69

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INTRODUCTORY SECTION

CITY OF TONKA BAY
TONKA BAY, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2024

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City of Tonka Bay, Minnesota
Elected and Appointed Officials
For the Year Ended December 31, 2024

Elected Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Adam Jennings	Mayor	12/31/2024
Doug Eckland	Council Member	12/31/2026
Kelly Wischmeier	Council Member	12/31/2026
Tim Connelly	Council Member	12/31/2024
Kristin Viger	Council Member	12/31/2024

Appointed Officials

Dan Tolsma	City Administrator
Annie Britt	City Treasurer

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FINANCIAL SECTION
CITY OF TONKA BAY
TONKA BAY, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2024

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council
City of Tonka Bay, Minnesota

Opinions

We have audited the accompanying financial statements of each major fund of the governmental and proprietary funds and the aggregate remaining fund information of the City of Tonka Bay, Minnesota (the City), as of and for the year ended December 31, 2024, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Unmodified Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements of the governmental funds referred to in the first paragraph present fairly, in all material respects, the cash and unencumbered cash balances of each fund of the City, as of December 31, 2024, and their respective cash receipts and disbursements, for the year then ended, on the basis of the financial reporting provisions the Minnesota Office of the State Auditor as described in Note 1B. Also, in our opinion, the financial statements of the proprietary funds referred to in the first paragraph present fairly, in all material respects, the respective financial position of each fund of the City as of December 31, 2024, and the respective changes in financial position and cash flows, for the year then ended, on the basis of the financial reporting provisions the Minnesota Office of the State Auditor as described in Note 1B.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles" paragraph, the financial statements referred to in the first paragraph do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the City as of December 31, 2024, the changes in its financial position for the year then ended.

Basis for Opinions

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

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1B, the financial statements are prepared by the City on the basis of the financial reporting provisions of the Minnesota Office of the State Auditor, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to meet the requirements of the Minnesota Office of the State Auditor. The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1B and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of the Minnesota Office of the State auditor, as described in Note 1B. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with generally accepted auditing standards, we:

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

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

Change in Accounting Principle

As described in Note 7 to the financial statements, the City adopted the provisions of Governmental Accounting Standard Board (GASB) Statements No. 100, Accounting Changes and Error Corrections, and No. 101, Compensated Absences, for the year ended December 31, 2024. Adoption of the provisions of these statements results in significant change to the classifications of the components of the financial statements. Our opinion is not modified with respect to this matter.



Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Schedule of Employer's Shares of the Net Pension Liability and the Schedule of Employer's Contributions and the related note disclosures for defined benefit plans starting on page 44 be presented to supplement the basic financial statements. Such 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, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinion on the financial statements that collectively comprise the City's basic financial statements. The accompanying combining and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and related directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying combining and individual fund financial statements and schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information in the annual report. The other information comprises the introductory section and supplementary information-unaudited but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statement do 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 November 12, 2025, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Abdo
Minneapolis, Minnesota
November 12, 2025



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FINANCIAL STATEMENTS - REGULATORY BASIS

CITY OF TONKA BAY
TONKA BAY, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2024

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City of Tonka Bay, Minnesota
Statement of Balances Arising from Cash Transactions
Governmental Funds
December 31, 2024

	General	(Formerly nonmajor) Capital Improvement	Nonmajor Governmental Funds	Totals Governmental Funds
Assets				
Cash and temporary investments	\$ 940,299	\$ 612,564	\$ 280,047	\$ 1,832,910
Due from other funds	-	1,812,197	-	1,812,197
Total Assets	\$ 940,299	\$ 2,424,761	\$ 280,047	\$ 3,645,107
Liabilities				
Surcharges payable	\$ 2,842	\$ -	\$ -	\$ 2,842
Escrows payable	64,504	-	-	64,504
Total Liabilities	67,346	-	-	67,346
Cash Fund Balances				
Restricted	-	1,747,187	15,843	1,763,030
Assigned	-	677,574	264,204	941,778
Unassigned	872,953	-	-	872,953
Total Cash Fund Balances	872,953	2,424,761	280,047	3,577,761
Total Liabilities and Cash Fund Balances	\$ 940,299	\$ 2,424,761	\$ 280,047	\$ 3,645,107

The notes to the financial statements are an integral part of this statement.

City of Tonka Bay, Minnesota
Statement of Receipts, Disbursements and
Changes in Cash Fund Balances
Governmental Funds
For the Year Ended December 31, 2024

	General	(Formerly nonmajor) Capital Improvement	Nonmajor Governmental Funds	Totals Governmental Funds
Receipts				
Taxes	\$ 1,306,789	\$ 250,496	\$ -	\$ 1,557,285
Franchise fees	10,221	-	5,290	15,511
Licenses and permits	168,556	-	-	168,556
Intergovernmental	26,013	-	-	26,013
Charges for services	18,410	-	-	18,410
Fines and forfeitures	8,419	-	-	8,419
Interest on investments	63,443	57,849	7,603	128,895
Miscellaneous	14,229	-	37,369	51,598
Total Receipts	<u>1,616,080</u>	<u>308,345</u>	<u>50,262</u>	<u>1,974,687</u>
Disbursements				
Current				
General government	469,507	-	1,141	470,648
Public safety	798,669	-	-	798,669
Streets and highways	171,162	-	31,609	202,771
Culture and recreation	75,303	-	-	75,303
Miscellaneous	206	-	-	206
Capital outlay				
Streets and highways	-	1,982,649	-	1,982,649
Culture and recreation	-	83,426	66,948	150,374
Debt service				
Interest and other fiscal charges	-	-	74,125	74,125
Total Disbursements	<u>1,514,847</u>	<u>2,066,075</u>	<u>173,823</u>	<u>3,754,745</u>
Excess (Deficiency) of Receipts over (Under) Disbursements	<u>101,233</u>	<u>(1,757,730)</u>	<u>(123,561)</u>	<u>(1,780,058)</u>
Other Financing Sources (Uses)				
Transfers in	-	164,098	-	164,098
Bonds issued	-	3,740,000	-	3,740,000
Premium on bonds issued	-	-	93,997	93,997
Transfers out	-	-	(1,197,743)	(1,197,743)
Total Other Financing Sources (Uses)	<u>-</u>	<u>3,904,098</u>	<u>(1,103,746)</u>	<u>2,800,352</u>
Net Change in Cash Fund Balances	<u>101,233</u>	<u>2,146,368</u>	<u>(1,227,307)</u>	<u>1,020,294</u>
Cash Fund Balances, January 1, as previously reported	771,720	-	1,785,747	2,557,467
Change to the financial reporting entity Change from nonmajor to major fund	<u>-</u>	<u>278,393</u>	<u>(278,393)</u>	<u>-</u>
Cash Fund Balances, January 1, as adjusted	<u>771,720</u>	<u>278,393</u>	<u>1,507,354</u>	<u>2,557,467</u>
Cash Fund Balances, December 31	<u>\$ 872,953</u>	<u>\$ 2,424,761</u>	<u>\$ 280,047</u>	<u>\$ 3,577,761</u>

The notes to the financial statements are an integral part of this statement.

City of Tonka Bay, Minnesota
Statement of Net Position
Proprietary Funds
December 31, 2024

	<u>Business-type Activities - Enterprise Funds</u>			<u>Total</u>
	<u>Water</u>	<u>Sewer</u>	<u>Nonmajor Enterprise Funds</u>	
Assets				
Current Assets				
Cash and cash equivalents	\$ -	\$ 2,033,638	\$ 649,161	\$ 2,682,799
Receivables				
Accounts	131,799	111,720	82,218	325,737
Due from other governments	3,000,418	417	283	3,001,118
Inventory	23,931	-	-	23,931
Prepaid items	9,406	4,898	3,672	17,976
Total Current Assets	<u>3,165,554</u>	<u>2,150,673</u>	<u>735,334</u>	<u>6,051,561</u>
Noncurrent Assets				
Capital assets				
Land	11,770	-	-	11,770
Construction work in progress	2,117,792	850,712	306,331	3,274,835
Buildings and improvements	7,376,389	-	450,806	7,827,195
Distribution system	2,138,779	2,105,066	-	4,243,845
Machinery and equipment	888,857	-	-	888,857
Less accumulated depreciation	(2,427,509)	(1,788,002)	(172,133)	(4,387,644)
Net Capital Assets	<u>10,106,078</u>	<u>1,167,776</u>	<u>585,004</u>	<u>11,858,858</u>
Total Assets	<u>13,271,632</u>	<u>3,318,449</u>	<u>1,320,338</u>	<u>17,910,419</u>
Deferred Outflows of Resources				
Deferred pension resources	8,115	7,404	4,179	19,698
Liabilities				
Current Liabilities				
Accounts payable	133,607	49,191	35,127	217,925
Escrows and other liabilities	-	89,396	624	90,020
Salaries and wages payable	3,934	3,334	1,966	9,234
Accrued interest payable	88,914	36,362	9,756	135,032
Due to other governments	887	136	148	1,171
Due to other funds	1,812,197	-	-	1,812,197
Compensated absences - current	7,216	5,446	1,345	14,007
Bonds payable - current	167,000	-	-	167,000
Total Current Liabilities	<u>2,213,755</u>	<u>183,865</u>	<u>48,966</u>	<u>2,446,586</u>
Noncurrent Liabilities				
Compensated absences	13,105	9,889	2,442	25,436
Bonds payable	5,815,024	1,936,416	519,526	8,270,966
Net pension liability	48,804	44,517	25,125	118,446
Total Noncurrent Liabilities	<u>5,876,933</u>	<u>1,990,822</u>	<u>547,093</u>	<u>8,414,848</u>
Total Liabilities	<u>8,090,688</u>	<u>2,174,687</u>	<u>596,059</u>	<u>10,861,434</u>
Deferred Inflows Of Resources				
Deferred pension resources	20,064	18,303	10,330	48,697
Net Position				
Net investment in capital assets	4,128,541	256,333	255,422	4,640,296
Unrestricted	1,040,454	876,530	462,706	2,379,690
Total Net Position	<u>\$ 5,168,995</u>	<u>\$ 1,132,863</u>	<u>\$ 718,128</u>	<u>\$ 7,019,986</u>

The notes to the financial statements are an integral part of this statement.

City of Tonka Bay, Minnesota
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds
For the Year Ended December 31, 2024

	Business-type Activities - Enterprise Funds			
	Water	Sewer	(Formerly Major) Garbage	(Formerly Major) Recycling
Operating Revenues				
Charges for services	\$ 546,004	\$ 429,393		
Operating Expenses				
Personal services	234,133	213,770		
Supplies	116,235	16,538		
Other charges	39,009	187,230		
Depreciation	141,273	52,027		
Capital outlay	-	-		
Miscellaneous	9,449	1,112		
Total Operating Expenses	<u>540,099</u>	<u>470,677</u>		
Operating Income (Loss)	<u>5,905</u>	<u>(41,284)</u>		
Nonoperating Revenues (Expenses)				
Grants	584,123	-		
Other revenue	8,966	5,073		
Bond issuance costs	(43,857)	(37,461)		
Interest on investments	72,023	29,584		
Interest and other fiscal charges	(153,768)	(35,174)		
Total Nonoperating Revenues (Expenses)	<u>467,487</u>	<u>(37,978)</u>		
Income (Loss) Before Capital Contributions	<u>473,392</u>	<u>(79,262)</u>		
Transfers In	<u>516,823</u>	<u>516,822</u>		
Change in Net Position	<u>990,215</u>	<u>437,560</u>		
Net Position, January 1 , as previously reported	1,762,903	695,303	56,265	38,898
Change to the financial reporting entity (Note 8)				
Change from major to nonmajor fund	-	-	(56,265)	(38,898)
Error correction	2,415,877	-	-	-
Net Position, January 1, as adjusted	<u>4,178,780</u>	<u>695,303</u>	<u>-</u>	<u>-</u>
Net Position, December 31	<u>\$ 5,168,995</u>	<u>\$ 1,132,863</u>		

The notes to the financial statements are an integral part of this statement.

Business-type Activities - Enterprise Funds			
<i>(Formerly Major)</i> Storm Drainage	<i>(Formerly Major)</i> Dock	Nonmajor Enterprise Funds	Total
		\$ 446,632	\$ 1,422,029
		116,631	564,534
		19,379	152,152
		216,123	442,362
		25,222	218,522
		-	-
		11,145	21,706
		388,500	1,399,276
		58,132	22,753
		6,661	590,784
		(8)	14,031
		(10,050)	(91,368)
		9,156	110,763
		(9,437)	(198,379)
		(3,678)	425,831
		54,454	448,584
		-	1,033,645
		54,454	1,482,229
42,089	526,422	-	3,121,880
(42,089)	(526,422)	663,674	-
-	-	-	2,415,877
-	-	663,674	5,537,757
		\$ 718,128	\$ 7,019,986

The notes to the financial statements are an integral part of this statement.

City of Tonka Bay, Minnesota
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2024

	Business-type Activities - Enterprise Funds			Total
	Water	Sewer	Nonmajor Enterprise Funds	
Cash Flows from Operating Activities				
Receipts from customers	\$ 547,505	\$ 431,092	\$ 439,691	\$ 1,418,288
Other receipts	8,966	5,073	(8)	14,031
Payments to suppliers	(263,761)	(128,967)	(255,612)	(648,340)
Payments to employees	(165,335)	(152,917)	(86,528)	(404,780)
Net Cash Provided (Used) by Operating Activities	<u>127,375</u>	<u>154,281</u>	<u>97,543</u>	<u>379,199</u>
Cash Flows from Noncapital Financing Activities				
Cash received related to loans with other funds	7,079	-	-	7,079
Advances from other funds	1,212,197	-	-	1,212,197
Transfers in	516,823	516,822	-	1,033,645
Net Cash Provided Non Capital Financing Activities	<u>1,736,099</u>	<u>516,822</u>	<u>-</u>	<u>2,252,921</u>
Cash Flows from Capital and Related Financing Activities				
Acquisition of capital assets	(4,139,926)	(821,193)	(312,313)	(5,273,432)
Grants received	-	-	6,661	6,661
Proceeds from bonds issued, net of bond issuance costs	2,224,557	1,900,143	509,795	4,634,495
Principal paid on bonds	(96,000)	-	-	(96,000)
Interest paid on bonds	(87,979)	-	-	(87,979)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(2,099,348)</u>	<u>1,078,950</u>	<u>204,143</u>	<u>(816,255)</u>
Cash Flows from Investing Activities				
Interest on investments	72,023	29,584	9,156	110,763
Net Increase (Decrease) in Cash and Cash Equivalents	(163,851)	1,779,637	310,842	1,926,628
Cash and Cash Equivalents, January 1	<u>163,851</u>	<u>254,001</u>	<u>338,319</u>	<u>756,171</u>
Cash and Cash Equivalents, December 31	<u>\$ -</u>	<u>\$ 2,033,638</u>	<u>\$ 649,161</u>	<u>\$ 2,682,799</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities				
Operating income (loss)	\$ 5,905	\$ (41,284)	\$ 58,132	\$ 22,753
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities				
Depreciation	141,273	52,027	25,222	218,522
Other receipts	8,966	5,073	(8)	14,031
(Increase) decrease in assets/deferred outflows				
Accounts receivable	1,919	2,116	(6,658)	(2,623)
Due from other governments	(418)	(417)	(283)	(1,118)
Inventories	(8,074)	-	-	(8,074)
Prepaid items	(1,103)	15,083	(69)	13,911
Deferred pension resources	(8,115)	(7,404)	(4,179)	(19,698)
Increase (decrease) in liabilities/deferred inflows				
Accounts payable	(88,078)	2,360	(2,268)	(87,986)
Escrows payable	(2,700)	58,334	(6,776)	48,858
Due to other governments	887	136	148	1,171
Salaries and wages payable	(12,276)	(9,898)	(4,960)	(27,134)
Compensated absences payable	20,321	15,335	3,787	39,443
Net pension liability	48,804	44,517	25,125	118,446
Deferred pension resources	20,064	18,303	10,330	48,697
Net Cash Provided (Used) by Operating Activities	<u>\$ 127,375</u>	<u>\$ 154,281</u>	<u>\$ 97,543</u>	<u>\$ 379,199</u>
Noncash Capital and Related Financing Activities				
Capital grant receivable	<u>\$ 3,000,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,000,000</u>
Purchase of capital assets on account	<u>\$ 118,657</u>	<u>\$ 38,447</u>	<u>\$ 17,273</u>	<u>\$ 174,377</u>
Amortization of bond premium	<u>\$ 1,390</u>	<u>\$ 1,188</u>	<u>\$ 319</u>	<u>\$ 2,897</u>

The notes to the financial statements are an integral part of this statement.

City of Tonka Bay, Minnesota
Notes to the Financial Statements
December 31, 2024

Note 1: Summary of Significant Accounting Policies

A. Reporting Entity

The City of Tonka Bay, Minnesota (the City), operates under “Optional Plan A” as defined in the Minnesota statutes. The City is governed by an elected Mayor and a four-member City Council. The City Council exercises legislative authority and determines all matters of policy. The City Council appoints personnel responsible for the proper administration of all affairs relating to the City. The City has considered all potential units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City’s financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization’s governing body, and (1) the ability of the primary government to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the primary government. The City has no component units that meet the GASB criteria.

B. Measurement Focus, Basis of Accounting and Basis of Presentation

The accompanying financial statements have been prepared using the regulatory basis of accounting as described in the Minnesota Office of the State Auditor’s Reporting and Publishing Requirements for Cities fewer than 2,500 in population published in February 2016. Under that basis, governmental receipts are recognized when received rather than when measurable and available, and disbursements are recognized when paid rather than when the obligation is incurred. That basis differs from generally accepted accounting principles in the United States of America (GAAP) primarily because the City has not included a management discussion and analysis letter, government-wide statement of net position and government-wide statement of activities and the City does not recognize governmental revenue and expenditures in accordance with the modified accrual basis of accounting.

The accounts of the City 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 numbers of funds are maintained consistent with legal and managerial requirements.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Governmental funds are used to account for the City’s general government activities and are accounted for using the regulatory basis of accounting. Their receipts are recognized when received in cash and disbursements are recognized when paid in cash. The regulatory basis of accounting is a special purpose framework other than GAAP. Under GAAP, governmental funds use the modified accrual method of accounting. The difference between the regulatory basis and modified accrual basis of accounting is that under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they are “measurable and available”). “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to pay liabilities of the current period.

Proprietary funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows.

City of Tonka Bay, Minnesota
Notes to the Financial Statements
December 31, 2024

Note 1: Summary of Significant Accounting Policies (Continued)

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, grants, entitlement and donations. On the regulatory basis, receipts from property taxes are recognized in the year the tax is collected. Receipts from grants, entitlements and donations are recognized in the year in which they are collected. For proprietary funds, revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis.

Preparation of the financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

The City has the following major governmental funds:

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

The *Capital Improvements fund* accounts for resources accumulated and payments made for improvements projects.

The City reports the following major proprietary funds:

The *Water fund* accounts for the activities of the water distribution system the City maintains.

The *Sewer fund* accounts for the activities of the City's wastewater collection operations.

Enterprise funds are used to account for those operations that are financed and operated in a manner similar to private business or where the City Council has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

C. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position/Fund Balance

Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. The proprietary funds' portion in the government-wide cash and temporary investments pool is considered to be cash and cash equivalents for purposes of the statement of cash flows.

City of Tonka Bay, Minnesota
Notes to the Financial Statements
December 31, 2024

Note 1: Summary of Significant Accounting Policies (Continued)

Cash balances from all funds are pooled and invested, to the extent available, in certificates of deposit and other authorized investments. Earnings from such investments are allocated on the basis of applicable participation by each of the funds.

The City may also invest idle funds as authorized by Minnesota statutes, as follows:

1. Direct obligations or obligations guaranteed by the United States or its agencies.
2. Shares of investment companies registered under the Federal Investment Company Act of 1940 and received the highest credit rating, rated in one of the two highest rating categories by a statistical rating agency, and have a final maturity of thirteen months or less.
3. General obligations of a state or local government with taxing powers rated "A" or better; revenue obligations rated "AA" or better.
4. General obligations of the Minnesota Housing Finance Agency rated "A" or better.
5. Obligation of a school district with an original maturity not exceeding 13 months and (i) rated in the highest category by a national bond rating service or (ii) enrolled in the credit enhancement program pursuant to statute section 126C.55.
6. Bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System.
7. Commercial paper issued by United States banks corporations or their Canadian subsidiaries, of highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less.
8. Repurchase or reverse repurchase agreements and securities lending agreements with financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.
9. Guaranteed Investment Contracts (GIC's) issued or guaranteed by a United States commercial bank, a domestic branch of a foreign bank, a United States insurance company, or its Canadian subsidiary, whose similar debt obligations were rated in one of the top two rating categories by a nationally recognized rating agency.

The Minnesota Municipal Money Market Fund is regulated by Minnesota statutes and the Board of Directors of the League of Minnesota Cities and is an external investment pool not registered with the Securities Exchange Commission (SEC) that follows the regulatory rules of the SEC. In accordance with GASB Statement No. 79, the City's investment in this pool is valued at amortized cost, which approximates fair value. There are no restrictions or limitations on withdrawals from the 4M Liquid Asset Fund. Investments in the 4M Plus must be deposited for a minimum of 14 calendar days. Withdrawals prior to the 14-day restriction period will be subject to a penalty equal to seven days interest on the amount withdrawn. Seven days' notice of redemption is required for withdrawals of investments in the 4M Term Series withdrawn prior to the maturity date of that series. A penalty could be assessed as necessary to recoup the Series for any charges, losses, and other costs attributable to the early redemption. Financial statements of the 4M Fund can be obtained by contracting RBC Global Management at 100 South Fifth Street, Suite 2300, Minneapolis, MN 55402-1240.

Property Taxes

The City Council annually adopts a tax levy and certifies it to the County in December for collection in the following year. The County is responsible for collecting all property taxes for the City. These taxes attach an enforceable lien on taxable property within the City on January 1 and are payable by the property owners in two installments. The taxes are collected by the County Treasurer and tax settlements are made to the City during January, July and December of each year.

City of Tonka Bay, Minnesota
Notes to the Financial Statements
December 31, 2024

Note 1: Summary of Significant Accounting Policies (Continued)

Accounts Receivable

Accounts receivable in the enterprise funds include amounts billed for services provided before year end. The City can annually certify delinquent water and sewer accounts to the County for collection. As a result, there is no allowance for uncollectible accounts.

Special Assessments

Special assessments represent the financing for public improvements paid for by benefiting property owners. In the proprietary funds, these assessments are recorded as receivables upon certification to the County. Special assessments are recognized as revenue upon receipt in the governmental funds.

Capital Assets

Under the regulatory basis, the City does not account for capital assets used in the governmental funds.

Property, plant and equipment in the proprietary funds of the City are recorded at cost. Capital assets are defined by the City as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Property, plant and equipment donated to these proprietary fund type operations are recorded at estimated acquisition value at the date of donation.

Major outlays for capital assets and improvements are capitalized in proprietary funds as projects are constructed.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized in the proprietary funds.

Property, plant and equipment are depreciated in the proprietary funds of the City using the straight-line method over the following estimated useful lives:

Assets	Useful Lives in Years
Buildings and Structures	10 - 40
Distribution and Collection System	10 - 60
Furniture, Fixtures, and Equipment	5 - 20

Deferred Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net assets that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has only one item that qualifies for reporting in this category. Accordingly, the item, deferred pension resources, is reported only in the statement of net position. This item results from actuarial calculations and current year pension contributions made subsequent to the measurement date.

Compensated Absences

It is the City's policy to permit employees to accumulate a portion of earned but unused vacation and sick pay benefits. Accumulated vacation and sick pay are accrued when incurred in the proprietary fund financial statements. In governmental funds, in the case of an employee leaving, the General fund would be responsible for liquidation of the liability.

Note 1: Summary of Significant Accounting Policies (Continued)

Long-term Obligations

In the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable proprietary fund type statement of net position. The recognition of bond premiums and discounts are amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as an expense in the period incurred.

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

Pensions

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

Deferred Inflows of Resources

In addition to liabilities, the statement of net position and fund financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net assets that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has only one item which qualifies for reporting in this category on the statement of net position. The item, deferred pension resources, is reported only in the statement of net position and results from actuarial calculations involving net differences between projected and actual earnings on plan investments and changes in proportions.

Fund Balance

In the fund financial statements, fund balance is divided into five classifications based primarily on the extent to which the City is bound to observe constraints imposed upon the use of resources reported in the governmental funds. These classifications are defined as follows:

Nonspendable - Amounts that cannot be spent because they are not in spendable form, such as prepaid items.

Restricted - Amounts related to externally imposed constraints established by creditors, grantors or contributors; or constraints imposed by state statutory provisions.

Committed - Amounts constrained for specific purposes that are internally imposed by formal action (resolution) of the City Council, which is the City's highest level of decision-making authority. Committed amounts cannot be used for any other purpose unless the City Council modifies or rescinds the commitment by resolution.

Assigned - Amounts constrained for specific purposes that are internally imposed. In governmental funds other than the General fund, assigned fund balance represents all remaining amounts that are not classified as nonspendable and are neither restricted nor committed. In the General fund, assigned amounts represent intended uses established by the City Council itself or by an official to which the governing body delegates the authority. The City Council has adopted a fund balance policy which delegates the authority to assign amounts for specific purposes to the City Clerk.

City of Tonka Bay, Minnesota
Notes to the Financial Statements
December 31, 2024

Note 1: Summary of Significant Accounting Policies (Continued)

Unassigned - The residual classification for the General fund and also negative residual amounts in other funds.

The City considers restricted amounts to be spent first when both restricted and unrestricted fund balance is available. Additionally, the City would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when disbursements are made.

The City has formally adopted a fund balance policy for the General fund. The City's policy is to maintain a minimum unassigned fund balance of 40-50 percent of budgeted operating disbursements for cash-flow timing needs.

Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net position is displayed in three components:

- a. Net investment in capital assets - Consists of capital assets, net of accumulated depreciation reduced by any outstanding debt attributable to acquire capital assets.
- b. Restricted net position - Consists of net position restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments.
- c. Unrestricted net position - All other net position that do not meet the definition of "restricted" or "net investment in capital assets".

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

Note 2: Stewardship, Compliance and Accountability

Budgetary Information

Annual budgets are adopted on the regulatory basis, which is a comprehensive basis other than GAAP for the General fund. All annual appropriations lapse at fiscal year-end. The City does not use encumbrance accounting.

In August of each year, all departments of the City submit requests for appropriations to the City Clerk so that a budget may be prepared. Before September 30, the proposed budget is presented to the City Council for review. The City Council holds public hearings and a final budget is prepared and adopted in early December.

The appropriated budget is prepared by fund, function and department. The City's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the City Council. The legal level of budgetary control is the department level. There were no budget amendments in 2024.

Note 3: Detailed Notes on Accounts

A. Deposits and Investments

Deposits

Custodial credit risk for deposits and investments is the risk that in the event of a bank failure, the City's deposits and investments may not be returned or the City will not be able to recover collateral securities in the possession of an outside party. In accordance with Minnesota statutes and as authorized by the City Council, the City maintains deposits at those depository banks, all of which are members of the Federal Reserve System.

City of Tonka Bay, Minnesota
Notes to the Financial Statements
December 31, 2024

Note 3: Detailed Notes on Accounts (Continued)

Minnesota statutes require that all City deposits be protected by insurance, surety bond or collateral. The fair value of collateral pledged must equal 110 percent of the deposits not covered by insurance, bonds, with the exception irrevocable standby letters of credit from Federal Home Loan Banks as this type of collateral only requires collateral pledged equal to 100 percent of the deposits not covered by insurance or bonds.

Authorized collateral in lieu of a corporate surety bond includes:

- United States government Treasury bills, Treasury notes, Treasury bonds;
- Issues of United States government agencies and instrumentalities as quoted by a recognized industry quotation service available to the government entity;
- General obligation securities of any state or local government with taxing powers which is rated "A" or better by a national bond rating service, or revenue obligation securities of any state or local government with taxing powers which is rated "AA" or better by a national bond rating service;
- General obligation securities of a local government with taxing powers may be pledged as collateral against funds deposited by that same local government entity;
- Irrevocable standby letters of credit issued by Federal Home Loan Banks to a municipality accompanied by written evidence that the bank's public debt is rated "AA" or better by Moody's Investors Service, Inc., or Standard & Poor's Corporation; and
- Time deposits that are fully insured by any federal agency.

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

Investments

At year end, the City's investments balances were as follows:

Investment Type	Credit Quality/ Ratings (1)	Segmented Time Distribution (2)	Amount
Pooled Investments at Amortized Costs			
Minnesota Municipal (4M fund)	N/A	less than 6 months	\$ 4,028,006
Broker- Money Market Fund	N/A	less than 6 months	<u>487,403</u>
Total			<u><u>\$ 4,515,409</u></u>

(1) Ratings are provided by various credit rating agencies where applicable to indicate associated credit risk.

(2) Interest rate risk is disclosed using the segmented time distribution method.

N/A Indicates not applicable or available.

City of Tonka Bay, Minnesota
Notes to the Financial Statements
December 31, 2024

Note 3: Detailed Notes on Accounts (Continued)

The investments of the City are subject to the following risks:

- *Credit Risk.* Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Ratings are provided by various credit rating agencies and where applicable, indicate associated credit risk. Minnesota statutes limit the City's investments to the list on page 24 of the notes.
- *Custodial Credit Risk.* The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.
- *Concentration of Credit Risk.* Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer.
- *Interest Rate Risk.* Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

The investment in the Minnesota Municipal Money Market Mutual Fund is not subject to the custodial credit risk classifications as noted in paragraph 9 of GASB Statement No. 40. The City does not have an investment policy that addresses the risks described above.

A reconciliation of cash and temporary investments as shown on the financial statements for the City follows:

Investments	\$ 4,515,409
Cash on Hand	<u>300</u>
Total	<u><u>\$ 4,515,709</u></u>
Governmental Funds	\$ 1,832,910
Business-type Funds	<u>2,682,799</u>
Total	<u><u>\$ 4,515,709</u></u>

City of Tonka Bay, Minnesota
Notes to the Financial Statements
December 31, 2024

Note 3: Detailed Notes on Accounts (Continued)

B. Capital Assets

A summary of changes in business-type capital assets follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type Activities				
Capital Assets not being Depreciated				
Land	\$ 11,770	\$ -	\$ -	\$ 11,770
Construction in progress	3,521,686	5,079,695	(5,326,546)	3,274,835
Total Capital Assets not being Depreciated	3,533,456	5,079,695	(5,326,546)	3,286,605
Capital Assets being Depreciated				
Buildings and Improvements	2,500,648	5,326,547	-	7,827,195
Distribution and Collection System	4,234,917	8,928	-	4,243,845
Machinery and Equipment	888,857	-	-	888,857
Total Capital Assets being Depreciated	7,624,422	5,335,475	-	12,959,897
Less Accumulated Depreciation for				
Buildings and Improvements	(509,517)	(91,859)	-	(601,376)
Distribution and Collection System	(3,119,147)	(95,986)	-	(3,215,133)
Machinery and Equipment	(540,458)	(30,677)	-	(571,135)
Total Accumulated Depreciation	(4,169,122)	(218,522)	-	(4,387,644)
Total Capital Assets being Depreciated, Net	3,455,300	5,116,953	-	8,572,253
Business-type Activities Capital Assets, Net	\$ 6,988,756	\$ 10,196,648	\$ (5,326,546)	\$ 11,858,858

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

Business-type Activities		
Water		\$ 141,273
Sewer		52,027
Nonmajor enterprise funds		25,222
Total Depreciation Expense - Business-type Activities		\$ 218,522

Construction commitments for projects of the city outstanding as of December 31, 2024, are as follows:

Project	Contracted	Spent-to-Date	Remaining Commitment
2024 Street & Utility Project	\$ 6,139,025	\$ 4,519,519	\$ 1,619,506

City of Tonka Bay, Minnesota
Notes to the Financial Statements
December 31, 2024

Note 3: Detailed Notes on Accounts (Continued)

C. Interfund Receivables, Payables and Transfers

Interfund Receivable/Payable

The composition of interfund balances at December 31, 2024 is as follows:

Receivable Fund	Payable Fund	Purpose	Amount
Capital	Water	Negative cash balances	<u>\$ 1,812,197</u>

Interfund Transfers

The composition of interfund transfers for the year ended December 31, 2024 is as follows:

Fund	Transfers in			Total
	Capital	Water	Sewer	
Transfer out Nonmajor governmental fund	<u>\$ 164,098</u>	<u>\$ 516,823</u>	<u>\$ 516,822</u>	<u>\$ 1,197,743</u>

The nonmajor governmental Liquor fund transferred \$164,098 to the Capital fund to close the Liquor fund balance. The nonmajor governmental Utility fund transferred \$516,823 to the Water fund and \$516,822 to the Sewer fund to close the Utility fund balance.

D. Long-term Debt

General Obligation Bonds

A general obligation bond has been issued for both general government and proprietary activities. The following bond was issued to finance the 2024 Street Improvement Project. It will be repaid from future tax levies and special assessment revenue and is backed by the taxing power of the City.

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
General Obligation Bonds, Series 2024A	\$ 8,350,000	4.00%	07/09/24	02/01/45	<u>\$ 8,350,000</u>

City of Tonka Bay, Minnesota
Notes to the Financial Statements
December 31, 2024

Note 3: Detailed Notes on Accounts (Continued)

General obligation bonds are direct obligations and pledge the full faith and credit of the government. General obligation bonds currently outstanding are as follows:

Year Ending December 31,	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2025	\$ -	\$ 158,742	\$ 158,742	\$ -	\$ 195,669	\$ 195,669
2026	125,000	147,100	272,100	160,000	181,200	341,200
2027	130,000	142,000	272,000	165,000	174,700	339,700
2028	135,000	136,700	271,700	170,000	168,000	338,000
2029	140,000	131,200	271,200	175,000	161,100	336,100
2030 - 2034	805,000	564,700	1,369,700	975,000	693,100	1,668,100
2034 - 2039	970,000	387,000	1,357,000	1,200,000	476,200	1,676,200
2040 - 2044	1,175,000	173,520	1,348,520	1,440,000	213,400	1,653,400
2045	260,000	5,200	265,200	325,000	6,500	331,500
Total	\$ 3,740,000	\$ 1,846,162	\$ 5,586,162	\$ 4,610,000	\$ 2,269,869	\$ 6,879,869

General Obligation Revenue Bonds

The following bond was issued to finance capital improvements in the Water fund. It will be repaid from future revenues pledged from the Water fund and is backed by the taxing power of the City.

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
General Obligation Revenue					
G.O Water Revenue Note	\$ 1,920,365	1.00 %	3/8/2019	8/20/2038	\$ 1,440,000
G.O. Water Revenue Bond	2,275,000	4.00 - 5.00	11/1/2023	2/1/2044	2,275,000
Total General Obligation Revenue Bonds					\$ 3,715,000

The annual requirements to amortize general obligation revenue bonds as of December 31, 2024 are as follows:

Year Ending December 31,	Business-type Activities		
	Principal	Interest	Total
2025	\$ 167,000	\$ 109,825	\$ 276,825
2026	183,000	105,755	288,755
2027	183,000	101,375	284,375
2028	189,000	96,895	285,895
2029	195,000	92,205	287,205
2030 - 2034	1,030,000	386,225	1,416,225
2034 - 2039	1,038,000	247,262	1,285,262
2040 - 2044	730,000	90,966	820,966
Total	\$ 3,715,000	\$ 1,230,508	\$ 4,945,508

City of Tonka Bay, Minnesota
Notes to the Financial Statements
December 31, 2024

Note 3: Detailed Notes on Accounts (Continued)

Changes in Long-term Liabilities

During the year ended December 31, 2024, the following changes occurred in long-term liabilities.

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Governmental activities					
Bonds payable					
General obligation bonds	\$ -	\$ 3,740,000	\$ -	\$ 3,740,000	\$ -
Business-type Activities					
Bonds Payable					
General Obligation Revenue Bonds					
Water Revenue Note	\$ 1,536,000	\$ -	\$ (96,000)	\$ 1,440,000	\$ 97,000
Water Revenue Bonds	2,275,000	-	-	2,275,000	70,000
General Obligation Bonds	-	4,610,000	-	4,610,000	-
Unamortized premium on bonds	-	115,863	(2,897)	112,966	-
Compensated Absences Payable*	31,243	8,200	-	39,443	-
Total	<u>\$ 3,842,243</u>	<u>\$ 4,734,063</u>	<u>\$ (98,897)</u>	<u>\$ 8,477,409</u>	<u>\$ 167,000</u>

* The change in the compensated absences liability is presented as a net change

City of Tonka Bay, Minnesota
Notes to the Financial Statements
For the Year Ended December 31, 2024

Note 4: Defined Benefit Pension Plans - Statewide

A. Plan Description

The City participates in the following cost-sharing multiple-employer defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). These plan provisions are established and administered according to Minnesota Statutes chapters 353, 353D, 353E, 353G, and 356. Minnesota Statutes chapter 356 defines each plan's financial reporting requirements. PERA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

General Employees Retirement Plan (General Plan)

Membership in the General Plan includes employees of counties, cities, townships, schools in non-certified positions, and other governmental entities whose revenues are derived from taxation, fees, or assessments. Plan membership is required for any employee who is expected to earn more than \$425 in a month, unless the employee meets exclusion criteria.

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. When a member is "vested," they have earned enough service credit to receive a lifetime monthly benefit after leaving public service and reaching an eligible retirement age. Members who retire at or over their Social Security full retirement age with at least one year of service qualify for a retirement benefit.

General Employee Plan Benefits

General Employees Plan requires three years of service to vest. 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 General Plan members. Members hired prior to July 1, 1989, receive the higher of the Step or Level formulas. Only the Level formula is used for members hired after June 30, 1989. Under the Step formula, General Plan members receive 1.2 percent of the highest average salary for each of the first 10 years of service and 1.7 percent for each additional year. Under the Level formula, General Plan members receive 1.7 percent of highest average salary for all years of service. For members hired prior to July 1, 1989 a full retirement benefit is available when age plus years of service equal 90 and normal retirement age is 65. Members can receive a reduced requirement benefit as early as age 55 if they have three or more years of service. Early retirement benefits are reduced by .25 percent for each month under age 65. Members with 30 or more years of service can retire at any age with a reduction of 0.25 percent for each month the member is younger than age 62. The Level formula allows General Plan members to receive a full retirement benefit at age 65 if they were first hired before July 1, 1989 or at age 66 if they were hired on or after July 1, 1989. Early retirement begins at age 55 with an actuarial reduction applied to the benefit.

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. The 2024 annual increase was 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 prorated increase.

City of Tonka Bay, Minnesota
Notes to the Financial Statements
For the Year Ended December 31, 2024

Note 4: Defined Benefit Pension Plans - Statewide (Continued)

C. Contributions

Minnesota Statutes chapters 353, 353E, 353G, and 356 set the rates for employer and employee contributions. Contribution rates can only be modified by the state Legislature.

General Employees Fund Contributions

General Plan members were required to contribute 6.50 percent of their annual covered salary in fiscal year 2024 and the City was required to contribute 7.50 percent for Coordinated Plan members. The City's contributions to the General Employees Fund for the year ending December 31, 2024, was \$22,931. The City's contributions were equal to the required contributions for each year as set by state statute.

D. Pension Costs

General Employees Fund Pension Costs

At December 31, 2024, the City reported a liability of \$118,446 for its proportionate share of the General Employees Fund's net pension liability. The City's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the City totaled \$3,063.

City's Proportionate Share of the Net Pension Liability	\$	118,446
State of Minnesota's Proportionate Share of the Net Pension Liability Associated with the City		3,063
Total		\$ 121,509

The net pension liability was measured as of June 30, 2024, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2023 through June 30, 2024, relative to the total employer contributions received from all of PERA's participating employers. The City's proportionate share was 0.0061 percent at the end of the measurement period and 0.0061 percent for the beginning of the period.

For the year ended December 31, 2024, the City recognized pension expense of \$159,527 for its proportionate share of the General Employees Plan's pension expense. In addition, the City recognized an additional negative \$59 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.

During the plan year ended June 30, 2024, the State of Minnesota contributed \$170.1 million to the General Employees Fund. The State of Minnesota is not included as a non-employer contributing entity in the General Employees Plan pension allocation schedules for the \$170.1 million in direct state aid because this contribution was not considered to meet the definition of a special funding situation. The City recognized \$5,468 for the year ended December 31, 2024 as revenue and an offsetting reduction of net pension liability for its proportionate share of the State of Minnesota's on-behalf contributions to the General Employees Fund.

City of Tonka Bay, Minnesota
Notes to the Financial Statements
For the Year Ended December 31, 2024

Note 4: Defined Benefit Pension Plans - Statewide (Continued)

At December 31, 2024, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	\$ 7,450	\$ -
Changes in Actuarial Assumptions	-	12,093
Net Difference Between Projected and Actual Investment Earnings	-	36,313
Changes in Proportion	-	291
Contributions Paid to PERA Subsequent to the Measurement Date	12,248	-
Total	\$ 19,698	\$ 48,697

The \$12,248 reported as deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2025. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

2025	\$ (10,771)
2026	(10,771)
2027	(10,626)
2028	(9,079)

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 Return on Investment
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	100.0 %	

Note 4: Defined Benefit Pension Plans - Statewide (Continued)

F. Actuarial Assumptions

The total pension liability for each of the cost-sharing defined benefit plans was determined by an actuarial valuation as of June 30, 2024, using the entry age normal actuarial cost method. The long-term rate of return on pension plan investments used to determine the total liability is 7%. The 7% assumption is based on a review of inflation and investment return assumptions from a number of national investment consulting firms. The review provided a range of investment return rates considered reasonable by the actuary. An investment return of 7% is within that range.

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

Salary growth assumptions in the General Employees Plan range in annual increments from 10.25% after one year of service to 3% after 27 years of service. Mortality rates for the General Employees Plan are based on the Pub-2010 General Employee Mortality Table.

Actuarial assumptions for the General Employees Plan are reviewed every four years. The General Employees Plan was last reviewed in 2022. The assumption changes were adopted by the board and became effective with the July 1, 2023 actuarial valuation.

The following changes in actuarial assumptions and plan provisions occurred in 2024:

General Employees Fund

Changes in Actuarial Assumptions

- Rates of merit and seniority were adjusted, resulting in slightly higher rates.
- Assumed rates of retirement were adjusted as follows: increase the rate of assumed unreduced retirements, slight adjustments to Rule of 90 retirement rates, and slight adjustments to early retirement rates for Tier 1 and Tier 2 members.
- Minor increase in assumed withdrawals for males and females.
- Lower rates of disability.
- Continued use of Pub-2010 general mortality table with slight rate adjustments as recommended in the most recent experience study.
- Minor changes to form of payment assumptions for male and female retirees.
- Minor changes to assumptions made with respect to missing participant data.

Changes in Plan Provisions

-The workers' compensation offset for disability benefits was eliminated. The actuarial equivalent factors updated to reflect the changes in assumptions.

City of Tonka Bay, Minnesota
Notes to the Financial Statements
For the Year Ended December 31, 2024

Note 4: Defined Benefit Pension Plans - Statewide (Continued)

G. Discount Rate

The discount rate used to measure the total pension liability in 2024 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 Plans were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

H. Pension Liability Sensitivity

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

	1 Percent Decrease (6.0%)	Current (7.0%)	1 Percent Increase (8.0%)
General Employees Fund	\$ 258,705	\$ 118,446	\$ 3,070

I. Pension Plan Fiduciary Net Position

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

City of Tonka Bay, Minnesota
Notes to the Financial Statements
December 31, 2024

Note 5: Other Information

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which the City carries insurance. The City obtains insurance through participation in the League of Minnesota Cities Insurance Trust (LMCIT), which is a risk sharing pool with approximately 800 other governmental units. The City pays an annual premium to LMCIT for its workers compensation and property and casualty insurance. The LMCIT is self-sustaining through member premiums and will reinsure for claims above a prescribed dollar amount for each insurance event. Settled claims have not exceeded this City's coverage in any of the past three fiscal years.

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

B. Legal Debt Margin

In accordance with Minnesota statutes, the City may not incur or be subject to net debt in excess of 3 percent of the market value of taxable property within the City. Net debt is payable solely from ad valorem taxes and therefore, excludes debt financed partially or entirely by special assessments, enterprise fund revenues or tax increments. The City has no debt subject to this limit.

Note 6: Joint Powers Agreements

A. South Lake Minnetonka Police Department

The City of Tonka Bay is a member of a joint and cooperative powers agreement entered between the Cities of Excelsior, Greenwood, Shorewood, and Tonka Bay establishing the South Lake Minnetonka Police Department (the Department) which provides law enforcement protection to the member cities. The duration of the joint powers agreement between the four cities forming the Department continues until December 31, 2028. The Department is a separate entity with its own organizational structure and operations.

The Department is governed by representatives from each city, operates independently of the four cities and establishes its own operating budget. The operating budget is present to and approved by each of the member cities. Costs of providing services are allocated to the member cities based on a formula prescribed in the joint powers agreement. The City's share of the operating budget for 2024 was \$426,085.

In 2002, the Department and the Excelsior Fire District (see below) entered into a cooperative agreement with the Shorewood Economic Development Authority (EDA) for the construction of a joint public safety facility. Lease revenue bonds were issued by the EDA to provide financing for this project. In connection with the issuance of the bonds, the EDA, the City of Shorewood, and the Department entered into certain lease purchase agreements. The essence of these agreements was to make the Department responsible for the debt service payments related to the bonds issued on behalf of the Department for costs associated with construction of the police portion of the facility. Debt service costs associated with the bonds issued to finance the project will be shared by the four member cities based on a 'tax capacity' formula. This debt was retired in 2023. Previously, the Department collected the funds necessary to pay the bonds and interest associated with its share of the debt service requirements as they became due from member cities and subsequently remitted these funds to the EDA.

The City's share of the operating budget in 2025 is \$465,544. Financial statements of the Department are available by writing to the South Lake Minnetonka Police Department at 24150 Smithtown Road, Shorewood, MN 55331.

City of Tonka Bay, Minnesota
Notes to the Financial Statements
December 31, 2024

Note 6: Joint Powers Agreements (Continued)

B. Excelsior Fire District

The City of Tonka Bay is also a member of a joint and cooperative powers agreement entered between the Cities of Deephaven, Excelsior, Greenwood, Shorewood and Tonka Bay establishing the Excelsior Fire District (the District) which provides fire protection services to the member cities. The duration of the joint powers agreement between the five cities forming the District continues until December 31, 2028. The District is a separate entity with its own organizational structure and operations similar to the South Lake Minnetonka Police Department.

The District is governed by citizens from the five communities. The District adopts its own budget, and the agreement provides a cost-sharing formula to allocate the costs of providing services and debt service among the five cities. The City's share of the operating budget and debt service for 2024 was \$273,850.

As discussed previously, the District was a participant in the construction of the public safety facility. In addition, the District constructed a second fire station to serve the eastern side of the District. Like the Police Department, the District entered into a series of agreements with the Shorewood EDA concerning construction of the facilities. The District was responsible for its share of the debt service related to the lease revenue bonds, similar to the Police Department. The District collected and remitted to the EDA the funds necessary to pay the bonds and interest associated with its share of the debt service requirements as they become due.

The City's share of the operating budget in 2025 is \$310,718. Financial statements of the District are available by writing to the Excelsior Fire District at 24100 Smithtown Road, Shorewood, MN 55331.

C. Lake Minnetonka Conservation District

The City of Tonka Bay is also a member of the Lake Minnetonka Conservation District (the District), a joint and cooperative powers agreement between fourteen member cities of the Lake Minnetonka area. The District provides conservation services to the member cities. The District is a separate entity with its own organizational structure and operations.

The District is governed by citizens from the member communities. The District adopts its own budget, and the agreement provides a cost-sharing formula to allocate the costs of providing services to the member cities. The City's share of the operating budget for 2024 was \$7,795. The City's share of the operating budget in 2025 is \$7,795. Financial statements of the District are available by writing to the Lake Minnetonka Conservation District at 5341 Maywood Road – Suite 200, Mound, MN 55364.

Note 7: Adjustments to and Restatements of Beginning Balances

During fiscal year 2024, changes to or within the financial reporting entity and an error correction resulted in adjustments to and restatements of beginning net position and fund net position, as follows:

	Reporting Units Affected by Adjustments to and Restatements of Beginning Balances							
	Funds							
	Capital Improvements	Nonmajor Governmental Funds	Water	Garbage	Recycling	Storm Drainage	Dock	
January 1, 2024, as previously reported	\$ -	\$ 1,785,747	\$ 1,762,903	\$ 56,265	\$ 38,898	\$ 42,089	\$ 526,422	\$ -
Change to the financial reporting entity								
Change from major to nonmajor fund	-	-	-	(56,265)	(38,898)	(42,089)	(526,422)	663,674
Change from nonmajor to major fund	278,393	(278,393)	-	-	-	-	-	-
Error correction	-	-	2,415,877	-	-	-	-	-
January 1, 2024, as adjusted	<u>\$ 278,393</u>	<u>\$ 1,507,354</u>	<u>\$ 4,178,780</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 663,674</u>

City of Tonka Bay, Minnesota
Notes to the Financial Statements
December 31, 2024

Note 7: Adjustments to and Restatements of Beginning Balances (Continued)

Change within Major and Nonmajor Fund Reporting

During fiscal year 2024, the Capital Improvements fund was determined to be major. The Garbage, Recycling, Storm Drainage, and Dock funds were determined to be nonmajor. The effects of the changes within the financial reporting entity are shown in the table above.

Correction of an Error in Previously Issued Financial Statements

During fiscal year 2024, the City determined that it had recorded a receivable from the Department of Housing and Urban Development for reimbursement of costs incurred relating to a grant that was previously awarded to the City to cover costs related to the Manitou Road Project. Therefore, net position in the Water fund was understated by \$2,415,877. The effect of that change to the financial reporting entity is shown in the table above.

Change in Accounting Principle

During fiscal year 2024, the City adopted the provisions of Governmental Accounting Standard Board (GASB) Statement No. 100, Accounting Changes and Error Corrections, and Statement No. 101, Compensated Absences, for the year ended December 31, 2024. Adoption of the provisions of these statements results in significant change to the classifications of the components of the financial statements. There were no adjustments or restatements of beginning balances needed for the adoption of these statements.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF TONKA BAY
TONKA BAY, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2024

City of Tonka Bay, Minnesota
Required Supplementary Information
For the Year Ended December 31, 2024

Schedule of Employer's Share of PERA Net Pension Liability - General Employees Fund

Fiscal Year Ending	City's Proportion of the Net Pension Liability	City's Proportionate Share of the Net Pension Liability (a)	State's Proportionate Share of the Net Pension Liability Associated with the City (b)	Total (a+b)	City's Covered Payroll (c)	City's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll (a/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
6/30/2024	0.0061 %	\$ 118,446	\$ 3,063	\$ 121,509	\$ 142,441	83.2 %	86.7 %

Schedule of Employer's PERA Contributions - General Employees Fund

Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	City's Covered Payroll (c)	Contributions as a Percentage of Covered Payroll (b/c)
12/31/2024	\$ 22,931	\$ 22,931	\$ -	\$ 305,749	7.50 %

Notes to the Required Supplementary Information - General Employee Retirement Fund

Changes in Actuarial Assumptions

2024 - The following changes in assumptions are effective with the July 1, 2024 valuation, as recommended in the most recent experience study (dated June 29, 2023): Rates of merit and seniority were adjusted, resulting in slightly higher rates. Assumed rates of retirement were adjusted as follows: increase the rate of assumed unreduced retirements, slight adjustments to Rule of 90 retirement rates, and slight adjustments to early retirement rates for Tier 1 and Tier 2 members. Minor increase in assumed withdrawals for males and females. Lower rates of disability. Continued use of Pub-2010 general mortality table with slight rate adjustments as recommended in the most recent experience study. Minor changes to form of payment assumptions for male and female retirees. Minor changes to assumptions made with respect to missing participant data.

Changes in Plan Provisions

2024 - The workers' compensation offset for disability benefits was eliminated. The actuarial equivalent factors updated to reflect the changes in assumptions.

INDIVIDUAL AND COMBINING FUND FINANCIAL SCHEDULES

CITY OF TONKA BAY
TONKA BAY, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2024

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City of Tonka Bay, Minnesota
 Nonmajor Governmental Funds
 Statement of Balances Arising from Cash Transactions
 December 31, 2024

	Special Revenue	Capital Projects	Debt Service	Total
Assets				
Cash and temporary investments	\$ 258,067	\$ 1,382	\$ 20,598	\$ 280,047
Cash fund balances				
Restricted	\$ 15,843	\$ -	\$ -	\$ 15,843
Assigned	242,224	1,382	20,598	264,204
Total Cash Fund Balances	\$ 258,067	\$ 1,382	\$ 20,598	\$ 280,047
Total Liabilities And Cash Fund Balances	\$ 258,067	\$ 1,382	\$ 20,598	\$ 280,047

City of Tonka Bay, Minnesota
Nonmajor Governmental Funds
Statement of Receipts, Disbursements and
Changes in Cash Fund Balances
For the Year Ended December 31, 2024

	Special Revenue	Capital Projects	Debt Service	Total
Receipts				
Franchise fees	\$ 5,290	\$ -	\$ -	\$ 5,290
Interest on investments	6,313	564	726	7,603
Miscellaneous	37,294	75	-	37,369
Total Receipts	<u>48,897</u>	<u>639</u>	<u>726</u>	<u>50,262</u>
Disbursements				
Current				
General government	1,141	-	-	1,141
Streets and highways	-	31,609	-	31,609
Capital outlay				
Culture and recreation	-	66,948	-	66,948
Debt service				
Interest and other fiscal charges	-	-	74,125	74,125
Total Disbursements	<u>1,141</u>	<u>98,557</u>	<u>74,125</u>	<u>173,823</u>
Excess (Deficiency) of Receipts over (Under) Disbursements	<u>47,756</u>	<u>(97,918)</u>	<u>(73,399)</u>	<u>(123,561)</u>
Other Financing Sources (Uses)				
Bond premium	-	-	93,997	93,997
Transfers out	<u>(164,098)</u>	<u>(1,033,645)</u>	<u>-</u>	<u>(1,197,743)</u>
Total Other Financing Sources (Uses)	<u>(164,098)</u>	<u>(1,033,645)</u>	<u>93,997</u>	<u>(1,103,746)</u>
Net Change In Cash Fund Balances	<u>(116,342)</u>	<u>(1,131,563)</u>	<u>20,598</u>	<u>(1,227,307)</u>
Cash Fund Balances, January 1, as previously reported	374,409	1,411,338	-	1,785,747
Change to the financial reporting entity Change from nonmajor to major fund	<u>-</u>	<u>(278,393)</u>	<u>-</u>	<u>(278,393)</u>
Cash Fund Balances, January 1, as adjusted	<u>374,409</u>	<u>1,132,945</u>	<u>-</u>	<u>1,507,354</u>
Cash Fund Balances, December 31	<u>\$ 258,067</u>	<u>\$ 1,382</u>	<u>\$ 20,598</u>	<u>\$ 280,047</u>

City of Tonka Bay, Minnesota
General Fund
Budgetary Comparison Schedule - Regulatory Basis (Continued on the Following Pages)
For the Year Ended December 31, 2024
(With Comparative Actual Amounts for the Year Ended December 31, 2023)

	2024			2023	
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
Budgetary Cash Fund Balances, January 1	\$ 771,720	\$ 771,720	\$ 771,720	\$ -	\$ 651,852
Receipts					
Property taxes	1,571,575	1,571,575	1,306,789	(264,786)	1,212,229
Franchise fees	15,000	15,000	10,221	(4,779)	14,952
Licenses and permits	153,365	153,365	168,556	15,191	179,785
Intergovernmental					
State					
Other State aids	20,900	20,900	26,013	5,113	62,709
County					
County grants	4,000	4,000	-	(4,000)	4,117
Total intergovernmental	24,900	24,900	26,013	1,113	66,826
Charges for services					
General government	44,700	44,700	18,410	(26,290)	91,528
Fines and forfeitures	6,000	6,000	8,419	2,419	9,301
Interest on investments	45,000	45,000	63,443	18,443	58,458
Miscellaneous					
Refunds and reimbursements	20,000	20,000	11,783	(8,217)	19,092
Other	4,000	4,000	2,446	(1,554)	3,248
Total miscellaneous	24,000	24,000	14,229	(9,771)	22,340
Total Receipts	1,884,540	1,884,540	1,616,080	(268,460)	1,655,419
Amounts Available for Appropriation	2,656,260	2,656,260	2,387,800	(268,460)	2,307,271

City of Tonka Bay, Minnesota
General Fund
Budgetary Comparison Schedule - Regulatory Basis (Continued)
For the Year Ended December 31, 2024
(With Comparative Actual Amounts for the Year Ended December 31, 2023)

	2024				2023
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
Disbursements					
Current					
General government					
Mayor and Council					
Personal services	\$ 9,904	\$ 9,904	\$ 8,431	\$ 1,473	\$ 9,150
Supplies	2,700	2,700	1,383	1,317	2,583
Other services and charges	3,700	3,700	1,352	2,348	4,293
Total Mayor and Council	<u>16,304</u>	<u>16,304</u>	<u>11,166</u>	<u>5,138</u>	<u>16,026</u>
Financial administration					
Personal services	108,621	108,621	113,536	(4,915)	91,809
Supplies	4,700	4,700	5,414	(714)	4,979
Other services and charges	68,935	68,935	58,240	10,695	63,334
Total City Clerk	<u>182,256</u>	<u>182,256</u>	<u>177,190</u>	<u>5,066</u>	<u>160,122</u>
Government buildings					
Personal services	3,294	3,294	3,475	(181)	3,207
Supplies	3,800	3,800	4,271	(471)	3,475
Other services and charges	14,260	14,260	12,181	2,079	13,151
Total government buildings	<u>21,354</u>	<u>21,354</u>	<u>19,927</u>	<u>1,427</u>	<u>19,833</u>
Elections					
Personal services	3,216	3,216	4,449	(1,233)	-
Supplies	2,000	2,000	2,402	(402)	-
Total elections	<u>5,216</u>	<u>5,216</u>	<u>6,851</u>	<u>(1,635)</u>	<u>-</u>
Legal					
Other services and charges	<u>60,200</u>	<u>60,200</u>	<u>53,177</u>	<u>7,023</u>	<u>67,050</u>
Engineering					
Other services and charges	<u>40,000</u>	<u>40,000</u>	<u>101,091</u>	<u>(61,091)</u>	<u>34,506</u>
Planning and zoning					
Personal services	63,781	63,781	62,911	870	57,738
Other services and charges	45,000	45,000	37,194	7,806	57,203
Total planning and zoning	<u>108,781</u>	<u>108,781</u>	<u>100,105</u>	<u>8,676</u>	<u>114,941</u>
Total General Government	<u>434,111</u>	<u>434,111</u>	<u>469,507</u>	<u>(35,396)</u>	<u>412,478</u>
Public safety					
Police					
Other services and charges	<u>427,085</u>	<u>427,085</u>	<u>426,876</u>	<u>209</u>	<u>414,040</u>
Fire					
Other services and charges	<u>273,849</u>	<u>273,849</u>	<u>273,849</u>	<u>-</u>	<u>270,672</u>
Building inspection					
Personal services	30,095	30,095	32,490	(2,395)	26,684
Other services and charges	76,000	76,000	65,454	10,546	78,992
Total building inspection	<u>106,095</u>	<u>106,095</u>	<u>97,944</u>	<u>8,151</u>	<u>105,676</u>
Total public safety	<u>807,029</u>	<u>807,029</u>	<u>798,669</u>	<u>8,360</u>	<u>790,388</u>

City of Tonka Bay, Minnesota
General Fund
Budgetary Comparison Schedule - Regulatory Basis (Continued)
For the Year Ended December 31, 2024
(With Comparative Actual Amounts for the Year Ended December 31, 2023)

	2024				2023
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
Disbursements (Continued)					
Current (continued)					
Streets and highways					
Street maintenance					
Personal services	\$ 148,759	\$ 148,759	\$ 132,840	\$ 15,919	\$ 125,053
Supplies	121,889	121,889	18,301	103,588	20,905
Other services and charges	19,710	19,710	20,021	(311)	20,137
Total street maintenance	<u>290,358</u>	<u>290,358</u>	<u>171,162</u>	<u>119,196</u>	<u>166,095</u>
Culture and recreation					
Parks					
Personal services	47,038	47,038	18,093	28,945	21,505
Supplies	25,000	25,000	34,519	(9,519)	45,747
Total parks	<u>72,038</u>	<u>72,038</u>	<u>52,612</u>	<u>19,426</u>	<u>67,252</u>
Trees					
Personal services	12,202	12,202	11,001	1,201	10,257
Supplies	4,000	4,000	2,863	1,137	756
Total trees	<u>16,202</u>	<u>16,202</u>	<u>13,864</u>	<u>2,338</u>	<u>11,013</u>
Fire lanes	<u>2,500</u>	<u>2,500</u>	<u>1,032</u>	<u>1,468</u>	<u>2,211</u>
Lake Minnetonka Conservation	<u>7,800</u>	<u>7,800</u>	<u>7,795</u>	<u>5</u>	<u>7,795</u>
Total culture and recreation	<u>98,540</u>	<u>98,540</u>	<u>75,303</u>	<u>23,237</u>	<u>88,271</u>
Miscellaneous					
Unallocated	<u>1,500</u>	<u>1,500</u>	<u>206</u>	<u>1,294</u>	<u>1,423</u>
Total Disbursements	<u>1,631,538</u>	<u>1,631,538</u>	<u>1,514,847</u>	<u>116,691</u>	<u>1,458,655</u>
Other Financing Uses					
Transfers out	<u>253,002</u>	<u>253,002</u>	<u>-</u>	<u>253,002</u>	<u>76,896</u>
Total Disbursements and Other Financing Uses	<u>1,884,540</u>	<u>1,884,540</u>	<u>1,514,847</u>	<u>369,693</u>	<u>1,535,551</u>
Budgetary Cash Fund Balances, December 31	<u>\$ 771,720</u>	<u>\$ 771,720</u>	<u>\$ 872,953</u>	<u>\$ 101,233</u>	<u>\$ 771,720</u>

City of Tonka Bay, Minnesota
Special Revenue Funds
Statement of Balances Arising from Cash Transactions
December 31, 2024

	Liquor Fund	Antenna Fund	PEG Fund	Total
Assets				
Cash and temporary investments	\$ -	\$ 242,224	\$ 15,843	\$ 258,067
Cash fund balances				
Restricted	\$ -	\$ -	\$ 15,843	\$ 15,843
Assigned	-	242,224	-	242,224
Total Cash Fund Balances	\$ -	\$ 242,224	\$ 15,843	\$ 258,067

City of Tonka Bay, Minnesota
Special Revenue Funds
Statement of Receipts, Disbursements and
Changes in Cash Fund Balances
For the Year Ended December 31, 2024

	Liquor Fund	Antenna Fund	PEG Fund	Total
Receipts				
Franchise fees	\$ -	\$ -	\$ 5,290	\$ 5,290
Interest on investments	6,150	163	-	6,313
Miscellaneous	-	37,294	-	37,294
Total Receipts	<u>6,150</u>	<u>37,457</u>	<u>5,290</u>	<u>48,897</u>
Disbursements				
Current				
General government	-	-	1,141	1,141
Excess (Deficiency) of Receipts over (Under) Disbursements	6,150	37,457	4,149	47,756
Other Financing Sources (Uses)				
Transfers out	<u>(164,098)</u>	<u>-</u>	<u>-</u>	<u>(164,098)</u>
Net Change In Cash Fund Balances	(157,948)	37,457	4,149	(116,342)
Cash Fund Balances, January 1	<u>157,948</u>	<u>204,767</u>	<u>11,694</u>	<u>374,409</u>
Cash Fund Balances, December 31	<u>\$ -</u>	<u>\$ 242,224</u>	<u>\$ 15,843</u>	<u>\$ 258,067</u>

City of Tonka Bay, Minnesota
 Capital Project Funds
 Statement of Balances Arising from Cash Transactions
 December 31, 2024

	Capital Projects		Total
	Utility	Park	
Assets			
Cash and temporary investments	\$ -	\$ 1,382	\$ 1,382
Cash fund balances			
Assigned	\$ -	\$ 1,382	\$ 1,382

City of Tonka Bay, Minnesota
Capital Project Funds
Statement of Receipts, Disbursements and
Changes in Cash Fund Balances
For the Year Ended December 31, 2024

	Capital Projects			Total
	Utility	(Formerly nonmajor) Capital	Park	
Receipts				
Interest on investments	\$ 564		\$ -	\$ 564
Miscellaneous	-		75	75
Total Receipts	<u>564</u>		<u>75</u>	<u>639</u>
Disbursements				
Current				
Streets and highways	31,609		-	31,609
Capital outlay				
Culture and recreation	-		66,948	66,948
Total Disbursements	<u>31,609</u>		<u>66,948</u>	<u>98,557</u>
Excess (Deficiency) of Receipts over (Under) Disbursements	(31,045)		(66,873)	(97,918)
Other Financing Sources (Uses)				
Transfers out	<u>(1,033,645)</u>		-	<u>(1,033,645)</u>
Net Change In Cash Fund Balances	<u>(1,064,690)</u>		<u>(66,873)</u>	<u>(1,131,563)</u>
Cash Fund Balances, January 1, as previously reported	1,064,690	278,393	68,255	1,411,338
Change to the financial reporting entity				
Change from nonmajor to major fund	-	<u>(278,393)</u>	-	<u>(278,393)</u>
Cash Fund Balances, January 1, as adjusted	<u>1,064,690</u>	-	<u>68,255</u>	<u>1,132,945</u>
Cash Fund Balances, December 31	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,382</u>	<u>\$ 1,382</u>

City of Tonka Bay, Minnesota
Statement of Net Position
Nonmajor Proprietary Funds
December 31, 2024

	Business-type Activities - Enterprise Funds				Total
	Garbage	Recycling	Storm Drainage	Dock	
Assets					
Current Assets					
Cash and cash equivalents	\$ 25,438	\$ 11,753	\$ 257,669	\$ 354,301	\$ 649,161
Receivables					
Accounts	42,850	33,654	5,714	-	82,218
Due from other governments	150	121	12	-	283
Prepaid items	1,463	627	-	1,582	3,672
Total Current Assets	69,901	46,155	263,395	355,883	735,334
Noncurrent Assets					
Capital assets					
Construction work in progress	-	-	306,331	-	306,331
Buildings and improvements	-	-	-	450,806	450,806
Less accumulated depreciation	-	-	-	(172,133)	(172,133)
Net Capital Assets	-	-	306,331	278,673	585,004
Total Assets	69,901	46,155	569,726	634,556	1,320,338
Deferred Outflows of Resources					
Deferred pension resources	1,586	1,734	401	458	4,179
Liabilities					
Current Liabilities					
Accounts payable	8,744	8,792	14,162	3,429	35,127
Escrows and other liabilities	624	-	-	-	624
Salaries and wages payable	733	858	112	263	1,966
Accrued interest payable	-	-	9,756	-	9,756
Due to other governments	148	-	-	-	148
Compensated absences - current	552	519	98	176	1,345
Total Current Liabilities	10,801	10,169	24,128	3,868	48,966
Noncurrent Liabilities					
Compensated absences	1,002	942	178	320	2,442
Bonds payable	-	-	519,526	-	519,526
Net pension liability	9,539	10,426	2,408	2,752	25,125
Total Noncurrent Liabilities	10,541	11,368	522,112	3,072	547,093
Total Liabilities	21,342	21,537	546,240	6,940	596,059
Deferred Inflows of Resources					
Deferred pension resources	3,922	4,286	990	1,132	10,330
Net Position					
Net investment in capital assets	-	-	(19,822)	275,244	255,422
Unrestricted	46,223	22,066	42,719	351,698	462,706
Total Net Position	\$ 46,223	\$ 22,066	\$ 22,897	\$ 626,942	\$ 718,128

The notes to the financial statements are an integral part of this statement.

City of Tonka Bay, Minnesota
Statement of Revenues, Expenses and Changes in Net Position
Nonmajor Proprietary Funds
For the Year Ended December 31, 2024

	Business-type Activities - Enterprise Funds				Total
	(Formerly Major) Garbage	(Formerly Major) Recycling	(Formerly Major) Storm Drainage	(Formerly Major) Dock	
Operating Revenues					
Charges for services	\$ 141,171	\$ 130,563	\$ 22,208	\$ 152,690	\$ 446,632
Operating Expenses					
Personal services	44,130	48,393	10,768	13,340	116,631
Supplies	502	502	12,457	5,918	19,379
Other charges	100,469	105,927	7,038	2,689	216,123
Depreciation	-	-	-	25,222	25,222
Miscellaneous	6,107	(766)	804	5,000	11,145
Total Operating Expenses	151,208	154,056	31,067	52,169	388,500
Operating Income (Loss)	(10,037)	(23,493)	(8,859)	100,521	58,132
Nonoperating Revenues (Expenses)					
Grants	-	6,661	-	-	6,661
Other revenue	(5)	-	(2)	(1)	(8)
Bond issuance costs	-	-	(10,050)	-	(10,050)
Interest on investments	-	-	9,156	-	9,156
Interest and other fiscal charges	-	-	(9,437)	-	(9,437)
Total Nonoperating Revenues (Expenses)	(5)	6,661	(10,333)	(1)	(3,678)
Change in Net Position	(10,042)	(16,832)	(19,192)	100,520	54,454
Net Position, January 1 , as previously reported	-	-	-	-	-
Change to the financial reporting entity					
Change from major to nonmajor fund	56,265	38,898	42,089	526,422	663,674
Net Position, January 1, as adjusted	56,265	38,898	42,089	526,422	663,674
Net Position, December 31	\$ 46,223	\$ 22,066	\$ 22,897	\$ 626,942	\$ 718,128

The notes to the financial statements are an integral part of this statement.

City of Tonka Bay, Minnesota
Statement of Cash Flows
Nonmajor Proprietary Funds
For the Year Ended December 31, 2024

	Business-type Activities - Enterprise Funds				Total
	Garbage	Recycling	Storm Drainage	Dock	
Cash Flows from Operating Activities					
Receipts from customers	\$ 137,283	\$ 127,271	\$ 22,447	\$ 152,690	\$ 439,691
Other receipts	(5)	-	(2)	(1)	(8)
Payments to suppliers	(114,916)	(106,837)	(20,173)	(13,686)	(255,612)
Payments to employees	(33,314)	(36,314)	(7,610)	(9,290)	(86,528)
Net Cash Provided (Used) by Operating Activities	<u>(10,952)</u>	<u>(15,880)</u>	<u>(5,338)</u>	<u>129,713</u>	<u>97,543</u>
Cash Flows from Capital and Related Financing Activities					
Acquisition of capital assets	-	-	(292,487)	(19,826)	(312,313)
Grants received	-	6,661	-	-	6,661
Proceeds from bonds issued, net of bond issuance costs	-	-	509,795	-	509,795
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>-</u>	<u>6,661</u>	<u>217,308</u>	<u>(19,826)</u>	<u>204,143</u>
Cash Flows from Investing Activities					
Interest on investments	-	-	9,156	-	9,156
Net Increase (Decrease) in Cash and Cash Equivalents					
	(10,952)	(9,219)	221,126	109,887	310,842
Cash and Cash Equivalents, January 1	36,390	20,972	36,543	244,414	338,319
Cash and Cash Equivalents, December 31	<u>\$ 25,438</u>	<u>\$ 11,753</u>	<u>\$ 257,669</u>	<u>\$ 354,301</u>	<u>\$ 649,161</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities					
Operating income (loss)	\$ (10,037)	\$ (23,493)	\$ (8,859)	\$ 100,521	\$ 58,132
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities					
Depreciation	-	-	-	25,222	25,222
Other receipts	(5)	-	(2)	(1)	(8)
(Increase) decrease in assets/deferred outflows					
Accounts receivable	(3,738)	(3,171)	251	-	(6,658)
Due from other governments	(150)	(121)	(12)	-	(283)
Inventories	-	-	-	-	-
Prepaid items	(40)	(17)	-	(12)	(69)
Deferred pension resources	(1,586)	(1,734)	(401)	(458)	(4,179)
Increase (decrease) in liabilities/deferred inflows					
Accounts payable	(1,170)	(1,157)	126	(67)	(2,268)
Escrows payable	(6,776)	-	-	-	(6,776)
Due to other governments	148	-	-	-	148
Salaries and wages payable	(2,613)	(2,360)	(115)	128	(4,960)
Compensated absences payable	1,554	1,461	276	496	3,787
Net pension liability	9,539	10,426	2,408	2,752	25,125
Deferred pension resources	3,922	4,286	990	1,132	10,330
Net Cash Provided (Used) by Operating Activities	<u>\$ (10,952)</u>	<u>\$ (15,880)</u>	<u>\$ (5,338)</u>	<u>\$ 129,713</u>	<u>\$ 97,543</u>
Noncash Capital and Related Financing Activities					
Purchase of capital assets on account	\$ -	\$ -	\$ 13,844	\$ 3,429	\$ 17,273
Amortization of bond premium	\$ -	\$ -	\$ 319	\$ -	\$ 319

The notes to the financial statements are an integral part of this statement.

City of Tonka Bay, Minnesota
 Summary Financial Report
 Receipts and Disbursements for General Operations -
 Governmental Funds
 For the Years Ended December 31, 2024 and 2023

	Total		Percent Increase (Decrease)
	2024	2023	
Receipts			
Taxes	\$ 1,557,285	\$ 1,391,677	11.90 %
Franchise fees	15,511	17,277	(10.22)
Licenses and permits	168,556	179,785	(6.25)
Intergovernmental	26,013	378,918	(93.13)
Charges for services	18,410	250,439	(92.65)
Fines and forfeitures	8,419	9,301	(9.48)
Interest on investments	128,895	83,598	54.18
Miscellaneous	51,598	232,323	(77.79)
Total Receipts	\$ 1,974,687	\$ 2,543,318	(22.36) %
Per Capita	\$ 1,240	\$ 1,582	(21.63) %
Disbursements			
Current			
General government	\$ 470,648	\$ 413,643	13.78 %
Public safety	798,669	790,388	1.05
Streets and highways	202,771	225,173	(9.95)
Culture and recreation	75,303	88,271	(14.69)
Enterprise	-	15,309	(100.00)
Miscellaneous	206	-	100.00
Capital outlay			
General government	-	2,346	(100.00)
Streets and highways	1,982,649	125,676	1,477.59
Culture and recreation	150,374	70,843	112.26
Debt service			
Interest and other charges	74,125	-	100.00
Total Disbursements	\$ 3,754,745	\$ 1,731,649	116.83 %
Per Capita	\$ 2,357	\$ 1,077	118.87 %
Total Long-term Indebtedness	\$ 3,740,000	\$ -	100.00 %
Per Capita	2,348	-	100.00
General Fund Balance - December 31	\$ 872,953	\$ 771,720	13.12 %
Per Capita	548	480	14.18

The purpose of this report is to provide a summary of financial information concerning the City of Tonka Bay to interested citizens. The complete financial statements may be examined at City Hall, 4901 Manitou Road, Tonka Bay, Minnesota 55331. Questions about this report should be directed to CJ Holl, City Administrator at (952) 474-7994.

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SUPPLEMENTARY INFORMATION - UNAUDITED

CITY OF TONKA BAY
TONKA BAY, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2024

City of Tonka Bay, Minnesota
 Supplementary Information - Unaudited
 December 31, 2024

Schedule of Accounts Receivable

Fund	Source of Revenue and Purpose	Amount
General	Hennepin County Tax Settlement	<u>\$ 21,622</u>

Schedule of Accounts Payable and Contingent Liabilities

Fund	Vendor Name	Item and Purpose	Amount
General	Speedway Fleet	Fuel Charges	\$ 1,216
General	Annie Britt	Mileage Reimbursement	134
General	Campbell Knutson	November Prosecution Services	1,002
Debt Service	DDA	Limited Continuing Disclosure	600
General	ECM Publishers Inc.	Cannabis Regs	49
General	Kennedy & Graven	Legal Fees	5,758
General	Metro West Inspection Services	Permit Fees	4,264
General	Todd Schallberg	Safety Shoe Reimbursement	400
General	Dan Tolsma	Cell Phone Reimbursement	100
General	Verizon Wireless	Telephone	67
General	CenterPoint Energy	Utility Bill	238
General	Greater MN Communications	Utility Newsletter	265
General	Hennepin County Information Technology	Radio Fleet Fee	136
General	Hennepin County Treasurer	Truth in Taxation	237
General	MN PEIP	Health Insurance	3,499
General	Toshiba Business Solutions	Copier Service & Usage	239
Capital	Geislinger and Sons Inc.	2024 Street & Utility Improvement Project Costs	133,122
Multiple	WSB & Associates Inc.	Various Planning and Engineering Fees	<u>373,473</u>
	Total		<u>\$ 524,799</u>

OTHER REQUIRED REPORTS

CITY OF TONKA BAY
TONKA BAY, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2024

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**INDEPENDENT AUDITOR'S REPORT
ON MINNESOTA LEGAL COMPLIANCE**

Honorable Mayor and City Council
City of Tonka Bay, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States the financial statements of each major fund of the governmental and proprietary funds and the aggregate remaining fund information of the City of Tonka Bay, Minnesota (the City) as of and for the year ended December 31, 2024, and the related notes to the financial statements, and have issued our report thereon dated November 12, 2025. In our report, our opinion was adverse because the City prepares its financial statements on the regulatory basis, which is a special purpose framework other than accounting principles generally accepted in the United States of America.

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

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.



Abdo
Minneapolis, Minnesota
November 12, 2025

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

Honorable Mayor and City Council
City of Tonka Bay, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of each major fund of the governmental and proprietary funds and the aggregate remaining fund information of the City of Tonka Bay, Minnesota (the City), as of and for the year ended December 31, 2024, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 12, 2025. In our report, our opinion was adverse because the City prepares its financial statements on the regulatory basis, which is a special purpose framework other than accounting principles generally accepted in the United States of America.

Report on Internal Control Over Financial Reporting

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

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying schedule of findings as item 2024-004 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings as items 2024-001, 2024-002 and 2024-003, to be significant deficiencies.

Report on Compliance and Other Matters

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

Response to Findings

The City's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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



Abdo
Minneapolis, Minnesota
November 12, 2025



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City of Tonka Bay, Minnesota
Schedule of Findings and Responses
For the Year Ended December 31, 2024

<u>Finding</u>	<u>Description</u>
2024-001	Limited Segregation of Duties
<i>Condition:</i>	During our audit we reviewed procedures over disbursements, cash receipts, payroll and utility billing and found the City to have limited segregation of duties over those transaction cycles.
<i>Criteria:</i>	There are four general categories of duties: authorization, custody, record keeping and reconciliation. In an ideal system, different employees perform each of these four major functions. In other words, no one person has control of two or more of these responsibilities.
<i>Cause:</i>	As a result of the limited number of staff, in the disbursements cycle, the City Treasurer has control over check stock, enters transactions into the accounting system, receives the bank statement, and also reconciles the bank account on a monthly basis. In the receipts cycle, the City Treasurer opens mail, posts to the utility billing software and prepares the deposit. In the payroll cycle, the City Treasurer has control over the checks, sets up employee records, approves timesheets and the payroll, posts to the general ledger and reconciles bank accounts. In the utility billing cycle, the City Council approves rates but the City Treasurer, does all other duties.
<i>Effect:</i>	The existence of this limited segregation of duties increases the risk of fraud.
<i>Recommendation:</i>	While we recognize staff is not large enough to eliminate this deficiency, we recommend that the City evaluate the current procedures and segregate duties where possible and implement any compensating controls. Compensating controls could consist of additional monitoring and review, such as approving all adjustments with utility billing, review of payroll records, and review of bank statements prior to the City Clerk receiving them. It is important that the City Council is aware of this condition and monitor all financial information.
<i>Management Response:</i>	Management recognizes that it is not economically feasible to correct this finding, is aware of the deficiency and is relying on oversight by management and the City Council to monitor this deficiency.

City of Tonka Bay, Minnesota
Schedule of Findings and Responses (Continued)
For the Year Ended December 31, 2024

<u>Finding</u>	<u>Description</u>
2024-002	Preparation of Financial Statements
<i>Condition:</i>	We were requested to draft the audited financial statements and related footnote disclosures as part of our regular audit services. Auditing standards require auditors to communicate this situation to the City Council as an internal control deficiency. Ultimately, it is management’s responsibility to provide for the preparation of your statements and footnotes, and the responsibility of the auditor to determine the fairness of presentation of those statements. From a practical standpoint we do both for you at the same time in connection with our audit. This is not unusual for us to do with organizations of your size. However, based on auditing standards, it is our responsibility to inform you that this deficiency could result in a material misstatement to the financial statements that could have been prevented or detected by your management. Essentially, the auditors cannot be part of your internal control process.
<i>Criteria:</i>	Internal controls should be in place to provide reasonable assurance over financial reporting.
<i>Cause:</i>	From a practical standpoint we do both for you at the same time in connection with our audit. This is not unusual for us to do with an organization of your size.
<i>Effect:</i>	The effectiveness of the internal control system relies on enforcement by management. The effect of deficiencies in internal controls can result in undetected errors in financial reporting.
<i>Recommendation:</i>	It is your responsibility to make the ultimate decision to accept this degree of risk associated with this condition because of cost or other considerations. As in prior years, we have instructed management to review a draft of the auditor prepared financials in detail for their accuracy; we have answered any questions they might have, and have encouraged research of any accounting guidance in connection with the adequacy and appropriateness of classification of disclosure in your statements. We are satisfied that the appropriate steps have been taken to provide you with the completed financial statements. While the City is reviewing the financial statements, we recommend a disclosure checklist is utilized to ensure all required disclosures are presented and the City should agree its financial software to the numbers reported in the financial statements.
<i>Management Response</i>	For now, the City’s management accepts the degree of risk associated with this deficiency and thoroughly reviews a draft of the financial statements.

City of Tonka Bay, Minnesota
Schedule of Findings and Responses (Continued)
For the Year Ended December 31, 2024

<u>Finding</u>	<u>Description</u>
2024-003	Financial Reporting and Monitoring
<i>Condition:</i>	During our audit, we noted that the City Council is not consistently receiving financial reports.
<i>Criteria:</i>	The City Council is ultimately responsible for overseeing financial reporting. Reviewing accounting reports, including budget versus actual reports for all funds, and payment claims are important in making all financial decisions. It is also important from a monitoring standpoint since there is limited segregation of duties.
<i>Cause:</i>	The budget vs actual reports and payment claim summaries did not appear to be included in the City Council packet each month.
<i>Effect:</i>	The City Council appears to have not been provided with sufficient information throughout the year to analyze and monitor activity.
<i>Recommendation:</i>	We recommend that City Council formally receive and closely review accounting reports and payment claim summaries.
<i>Management Response</i>	Management plans to follow the recommendation described above.
2024-004	Material Audit Adjustment
<i>Condition:</i>	During our audit, a material year-end adjustment was needed to record a receivable related to the Department of Housing and Urban Development (HUD) grant for costs incurred on the Manitou Road Project. The receivable had not been recorded for expenditures incurred in 2022 - 2024, which were subsequently submitted to HUD for reimbursement.
<i>Criteria:</i>	Management is responsible for ensuring that transactions are recorded in accordance with generally accepted accounting principles (GAAP). Costs incurred and eligible for reimbursement under grant agreements should be recorded as revenue and receivables when the related expenditures are incurred.
<i>Cause:</i>	The City did not record the receivable at year-end for eligible project expenditures submitted to HUD for reimbursement.
<i>Effect:</i>	Financial statements were misstated prior to audit adjustments, resulting in an understatement of receivables and grant revenue. This indicates that misstatements may occur and not be detected by the City's system of internal control over year-end financial reporting.
<i>Recommendation:</i>	We recommend that the City strengthen its year-end closing procedures to ensure that grant-related receivables are recorded when eligible expenditures are incurred. Management should review the current tracking and year-end reconciliation process and provide additional training to staff responsible for grant accounting, as needed. Management should also review the related journal entries and obtain an understanding of why the entries were necessary.
<i>Management Response</i>	Management understands the reason the adjustment was necessary and will enhance its year-end closing procedures to ensure grant-related receivables are properly recorded going forward.