

City of Scandia, Minnesota

Audited Financial Statements

December 31, 2021

**SCHLENNER
WENNER & Co.**
CPAs

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

**CITY OF SCANDIA, MINNESOTA
CITY COUNCIL AND OFFICIALS
FOR THE YEAR ENDED DECEMBER 31, 2021**

CITY COUNCIL

Term Expires

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

CITY OFFICIALS

Ken Cammilleri	City Administrator
Colleen Firkus	Treasurer

**FINANCIAL
SECTION**

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council
City of Scandia, Minnesota

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Scandia, Minnesota, as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Scandia, Minnesota, as of December 31, 2021, and their respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Required Supplementary Information

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

Supplementary Information

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

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

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the introductory section but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements 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 May 31, 2022 on our consideration of the City of Scandia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Scandia's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Scandia's internal control over financial reporting and compliance.

SCHLENNER WENNER & CO.

St. Cloud, Minnesota

May 31, 2022

**REQUIRED SUPPLEMENTARY
INFORMATION**

BASIC FINANCIAL STATEMENTS

**CITY OF SCANDIA, MINNESOTA
STATEMENT OF NET POSITION
DECEMBER 31, 2021**

	Governmental Activities	Business-Type Activities	Totals
ASSETS			
Cash and Cash Equivalents	\$ 4,458,530	\$ 105,243	\$ 4,563,773
Property Taxes Receivable	65,537	-	65,537
Assessments Receivable	31,752	4,315	36,067
Accounts Receivable	35,115	17,532	52,647
Interest Receivable	246	-	246
Internal Balances	15,828	(15,828)	-
Inventory	7,873	-	7,873
Prepays	12,044	-	12,044
Noncurrent Assets:			
Capital Assets Not Being Depreciated	512,445	-	512,445
Capital Assets Being Depreciated (Net)	14,286,562	911,078	15,197,640
Net Pension Asset	189,569	-	189,569
TOTAL ASSETS	<u>19,615,501</u>	<u>1,022,340</u>	<u>20,637,841</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pensions	278,786	9,218	288,004
LIABILITIES			
Accounts Payable	434,861	6,082	440,943
Salaries Payable	40,549	1,100	41,649
Accrued Interest Payable	2,518	-	2,518
Deposits Payable	36,716	-	36,716
Unearned Revenue	415	1,200	1,615
Noncurrent Liabilities:			
Amount Due Within One Year	360,757	-	360,757
Amount Due After One Year	3,119,733	-	3,119,733
Net Pension Liability	273,668	12,662	286,330
TOTAL LIABILITIES	<u>4,269,217</u>	<u>21,044</u>	<u>4,290,261</u>
DEFERRED INFLOWS OF RESOURCES			
Pensions	420,524	11,753	432,277
NET POSITION			
Net Investment in Capital Assets	11,357,274	911,078	12,268,352
Restricted	271,801	-	271,801
Unrestricted	3,575,471	87,683	3,663,154
TOTAL NET POSITION	<u>\$ 15,204,546</u>	<u>\$ 998,761</u>	<u>\$ 16,203,307</u>

**CITY OF SCANDIA, MINNESOTA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2021**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-Type Activities	
Governmental Activities:							
General Government	\$ 555,611	\$ 62,202	\$ -	\$ -	\$ (493,409)	\$ -	\$ (493,409)
Public Safety	543,177	226,865	41,294	-	(275,018)	-	(275,018)
Public Works	1,336,615	12,632	89,362	1,126	(1,233,495)	-	(1,233,495)
Culture and Recreation	183,587	13,633	6,089	-	(163,865)	-	(163,865)
Economic Development	2,754	-	-	-	(2,754)	-	(2,754)
Debt Service	108,153	-	-	-	(108,153)	-	(108,153)
Total Governmental Activities	2,729,897	315,332	136,745	1,126	(2,276,694)	-	(2,276,694)
Business-Type Activities:							
201 Sewer	101,246	106,001	-	624	-	5,379	5,379
Uptown Sewer	19,582	15,132	-	-	-	(4,450)	(4,450)
Total Business-Type Activities	120,828	121,133	-	624	-	929	929
TOTALS	\$ 2,850,725	\$ 436,465	\$ 136,745	\$ 1,750	(2,276,694)	929	(2,275,765)
General Revenues:							
Taxes					2,533,874	-	2,533,874
Franchise and Other Tax					30,158	-	30,158
Intergovernmental					270,866	32	270,898
Investment Income					11,701	247	11,948
Gain on Sale of Assets					42,038	-	42,038
Miscellaneous					18,986	-	18,986
Total General Revenues					2,907,623	279	2,907,902
CHANGE IN NET POSITION					630,929	1,208	632,137
NET POSITION - BEGINNING OF YEAR					14,573,617	997,553	15,571,170
NET POSITION - END OF YEAR					\$ 15,204,546	\$ 998,761	\$ 16,203,307

**CITY OF SCANDIA, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2021**

	General Fund	Capital Project		Debt Service Fund	Total Nonmajor Funds	Total Governmental Funds
		Capital Improvement Fund	Local Road Improvement Fund			
ASSETS						
Cash and Cash Equivalents	\$ 1,529,175	\$ 845,402	\$ 1,278,399	\$ 45,963	\$ 759,591	\$ 4,458,530
Property Taxes Receivable	65,537	-	-	-	-	65,537
Assessments Receivable	-	674	31,078	-	-	31,752
Accounts Receivable	24,184	-	-	-	10,931	35,115
Interest Receivable	246	-	-	-	-	246
Inventory	7,873	-	-	-	-	7,873
Prepays	11,749	-	-	-	295	12,044
Advances to Other Funds	-	47,828	-	-	-	47,828
TOTAL ASSETS	\$ 1,638,764	\$ 893,904	\$ 1,309,477	\$ 45,963	\$ 770,817	\$ 4,658,925
LIABILITIES						
Accounts Payable	\$ 151,685	\$ 257,326	\$ 25,850	\$ -	\$ -	\$ 434,861
Salaries Payable	40,549	-	-	-	-	40,549
Deposits Payable	36,716	-	-	-	-	36,716
Unearned Revenue	415	-	-	-	-	415
Advances from Other Funds	24,000	-	-	-	8,000	32,000
Total Liabilities	253,365	257,326	25,850	-	8,000	544,541
DEFERRED INFLOWS OF RESOURCES						
Unavailable Revenue:						
Property Taxes	35,105	-	-	-	-	35,105
Special Assessments	-	674	31,078	-	-	31,752
Other Receivables	-	-	-	-	9,000	9,000
Total Deferred Inflows of Resources	35,105	674	31,078	-	9,000	75,857
FUND BALANCES						
Nonspendable	19,622	47,828	-	-	295	67,745
Restricted	-	-	-	45,963	228,356	274,319
Committed	-	588,076	-	-	259,187	847,263
Assigned	-	-	1,252,549	-	265,979	1,518,528
Unassigned	1,330,672	-	-	-	-	1,330,672
Total Fund Balances	1,350,294	635,904	1,252,549	45,963	753,817	4,038,527
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 1,638,764	\$ 893,904	\$ 1,309,477	\$ 45,963	\$ 770,817	\$ 4,658,925

**CITY OF SCANDIA, MINNESOTA
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2021**

Total Fund Balances - Governmental Funds		\$ 4,038,527
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds:		
Capital Assets	\$ 23,200,533	
Accumulated Depreciation	<u>(8,401,526)</u>	
Capital Assets (Net)		14,799,007
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds:		
Bonds and Equipment Certificates Principal Payable	(3,397,000)	
Bond Premium, Net of Accumulated Amortization	(44,733)	
Compensated Absences	<u>(38,757)</u>	
		(3,480,490)
The net pension liability and related deferred outflows/inflows represent the allocation of the pension obligations of the statewide plans to the City. Such balances are not reported in the funds:		
Net Pension Asset	189,569	
Net Pension Liability	(273,668)	
Deferred Outflows - Pensions	278,786	
Deferred Inflows - Pensions	<u>(420,524)</u>	
		(225,837)
Interest on long-term debt is recognized as an expenditure when due and payable in the governmental funds. Therefore, interest is not accrued in the governmental funds Balance Sheet, but is accrued in the Statement of Net Position:		
		(2,518)
Other long-term assets are not available to pay for current-period expenditures and, therefore, are reported as unavailable in the funds:		
Property Taxes		35,105
Special Assessments		31,752
Other Receivables		<u>9,000</u>
TOTAL NET POSITION OF GOVERNMENTAL ACTIVITIES		<u><u>\$ 15,204,546</u></u>

CITY OF SCANDIA, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2021

	General Fund	Capital Project		Debt Service Fund	Total Nonmajor Funds	Total Governmental Funds
		Capital Improvement Fund	Local Road Improvement Fund			
REVENUES						
Taxes	\$ 1,425,296	\$ 100,000	\$ 438,539	\$ 445,585	\$ 145,000	\$ 2,554,420
Franchise Taxes	6,965	-	-	-	23,193	30,158
Special Assessments	-	2,198	-	-	-	2,198
Licenses, Permits, and Fees	215,320	-	-	-	-	215,320
Intergovernmental	70,580	-	89,362	-	233,424	393,366
Charges for Services	63,081	-	-	-	3,000	66,081
Fines	6,899	-	-	-	-	6,899
Interest Income	3,133	2,941	4,298	-	1,329	11,701
Miscellaneous	46,018	6,089	-	-	42,038	94,145
TOTAL REVENUES	<u>1,837,292</u>	<u>111,228</u>	<u>532,199</u>	<u>445,585</u>	<u>447,984</u>	<u>3,374,288</u>
EXPENDITURES						
Current:						
General Government	515,988	-	-	-	5,906	521,894
Public Safety	539,313	-	-	-	-	539,313
Public Works	557,554	-	-	-	-	557,554
Parks and Recreation	110,988	-	-	-	-	110,988
Economic Development	-	-	-	-	2,754	2,754
Capital Outlay	15,687	535,983	960,101	-	58,418	1,570,189
Debt Service:						
Principal	-	-	-	312,000	-	312,000
Interest and Other Charges	-	-	-	115,018	-	115,018
TOTAL EXPENDITURES	<u>1,739,530</u>	<u>535,983</u>	<u>960,101</u>	<u>427,018</u>	<u>67,078</u>	<u>3,729,710</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	97,762	(424,755)	(427,902)	18,567	380,906	(355,422)
OTHER FINANCING SOURCES (USES)						
Transfers In	-	200,000	80,000	-	2,690	282,690
Transfers Out	(282,690)	-	-	-	-	(282,690)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(282,690)</u>	<u>200,000</u>	<u>80,000</u>	<u>-</u>	<u>2,690</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	(184,928)	(224,755)	(347,902)	18,567	383,596	(355,422)
FUND BALANCES - BEGINNING	<u>1,535,222</u>	<u>860,659</u>	<u>1,600,451</u>	<u>27,396</u>	<u>370,221</u>	<u>4,393,949</u>
FUND BALANCES - ENDING	<u>\$ 1,350,294</u>	<u>\$ 635,904</u>	<u>\$ 1,252,549</u>	<u>\$ 45,963</u>	<u>\$ 753,817</u>	<u>\$ 4,038,527</u>

**CITY OF SCANDIA, MINNESOTA
RECONCILIATION OF CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2021**

Net Change in Fund Balances - Total Governmental Funds \$ (355,422)

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

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

Capital Outlay Capitalized	\$ 1,248,348	
Depreciation Expense	<u>(638,874)</u>	609,474

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

Bond Principal Repayments	312,000	
Amortization of Bond Premium	<u>3,728</u>	315,728

Net change in accrued interest on bonds and equipment certificates are not reported as expenses in the funds. 3,137

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

Property Taxes	(20,546)	
Special Revenues	(1,072)	
Other Receivables	<u>9,000</u>	(12,618)

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

Compensated Absences		(529)
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Certain liabilities do not represent the impending use of current resources.

Therefore, the change in such liabilities and related deferrals are not reported in the governmental funds:

Net Pension Liability and Deferred Outflows/Inflows of Resources		<u>71,159</u>
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CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 630,929

**CITY OF SCANDIA, MINNESOTA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2021**

	201 Sewer Fund	Nonmajor Uptown Sewer Fund	Totals
ASSETS			
Current Assets			
Cash and Cash Equivalents	\$ 89,665	\$ 15,578	\$ 105,243
Assessments Receivable	4,315	-	4,315
Accounts Receivable	13,432	4,100	17,532
Total Current Assets	<u>107,412</u>	<u>19,678</u>	<u>127,090</u>
Noncurrent Assets			
Capital Assets Being Depreciated (Net)	745,077	166,001	911,078
TOTAL ASSETS	<u>852,489</u>	<u>185,679</u>	<u>1,038,168</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pensions	7,271	1,947	9,218
LIABILITIES			
Current Liabilities			
Accounts Payable	4,737	1,345	6,082
Salaries Payable	845	255	1,100
Unearned Revenue	1,200	-	1,200
Total Current Liabilities	<u>6,782</u>	<u>1,600</u>	<u>8,382</u>
Noncurrent Liabilities			
Advances from Other Funds	-	15,828	15,828
Net Pension Liability	10,002	2,660	12,662
Total Noncurrent Liabilities	<u>10,002</u>	<u>18,488</u>	<u>28,490</u>
TOTAL LIABILITIES	<u>16,784</u>	<u>20,088</u>	<u>36,872</u>
DEFERRED INFLOWS OF RESOURCES			
Pensions	9,284	2,469	11,753
NET POSITION			
Net Investment in Capital Assets	745,077	166,001	911,078
Unrestricted	88,615	(932)	87,683
TOTAL NET POSITION	<u>\$ 833,692</u>	<u>\$ 165,069</u>	<u>\$ 998,761</u>

CITY OF SCANDIA, MINNESOTA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2021

	201 Sewer Fund	Nonmajor Uptown Sewer Fund	Totals
OPERATING REVENUES			
Charges for Services	\$ 98,001	\$ 15,132	\$ 113,133
OPERATING EXPENSES			
Wages and Benefits	11,663	3,571	15,234
Materials and Supplies	667	84	751
Repairs and Maintenance	12,029	2,063	14,092
Professional Services	16,653	7,464	24,117
Utilities	1,862	522	2,384
Miscellaneous	9,705	1,002	10,707
Depreciation	48,667	4,876	53,543
TOTAL OPERATING EXPENSES	<u>101,246</u>	<u>19,582</u>	<u>120,828</u>
NET OPERATING INCOME (LOSS)	(3,245)	(4,450)	(7,695)
NONOPERATING INCOME			
Special Assessments	624	-	624
Intergovernmental	25	7	32
Connection Fees	8,000	-	8,000
Investment Income	183	64	247
TOTAL NONOPERATING INCOME	<u>8,832</u>	<u>71</u>	<u>8,903</u>
CHANGE IN NET POSITION	5,587	(4,379)	1,208
NET POSITION - BEGINNING OF YEAR	<u>828,105</u>	<u>169,448</u>	<u>997,553</u>
NET POSITION - END OF YEAR	<u>\$ 833,692</u>	<u>\$ 165,069</u>	<u>\$ 998,761</u>

**CITY OF SCANDIA, MINNESOTA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2021**

	201 Sewer Fund	Nonmajor Uptown Sewer Fund	Totals
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Received from Customers	\$ 96,990	\$ 13,656	\$ 110,646
Cash Paid to Suppliers	(44,238)	(10,152)	(54,390)
Cash Paid to Employees	(12,861)	(4,124)	(16,985)
NET CASH PROVIDED BY OPERATING ACTIVITIES	39,891	(620)	39,271
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Intergovernmental	25	7	32
Other Receipts from Customers	8,000	-	8,000
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	8,025	7	8,032
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Special Assessments	818	-	818
Purchases of Capital Assets	(5,690)	-	(5,690)
Payments on Interfund Advances	-	(2,640)	(2,640)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(4,872)	(2,640)	(7,512)
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment Income	183	64	247
Net Change in Cash and Cash Equivalents	43,227	(3,189)	40,038
Cash and Cash Equivalents - Beginning of Year	46,438	18,767	65,205
Cash and Cash Equivalents - End of Year	<u>\$ 89,665</u>	<u>\$ 15,578</u>	<u>\$ 105,243</u>

CITY OF SCANDIA, MINNESOTA
STATEMENT OF CASH FLOWS (Continued)
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2021

	201 Sewer Fund	Nonmajor Uptown Sewer Fund	Totals
RECONCILIATION OF NET OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Net Operating Income (Loss)	\$ (3,245)	\$ (4,450)	\$ (7,695)
Adjustments to Reconcile Net Operating Income (Loss) to Net Cash Provided by Operating Activities:			
Depreciation Expense	48,667	4,876	53,543
Changes in Assets, Liabilities, and Deferrals:			
Accounts Receivable	(1,811)	(1,476)	(3,287)
Prepays	130	-	130
Accounts Payable	(3,452)	983	(2,469)
Salaries Payable	265	84	349
Unearned Revenue	800	-	800
Net Pension Liability	(4,304)	(1,350)	(5,654)
Deferred Outflows or Resources - Pensions	(5,737)	(1,558)	(7,295)
Deferred Inflows or Resources - Pensions	8,578	2,271	10,849
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 39,891</u>	<u>\$ (620)</u>	<u>\$ 39,271</u>

CITY OF SCANDIA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

1.A. FINANCIAL REPORTING ENTITY

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

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

Blended Component Units

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

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

Discretely Presented Component Units

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

1.B. BASIS OF PRESENTATION

Government-wide Financial Statements

The Statement of Net Position and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods and services.

Fund Financial Statements

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

CITY OF SCANDIA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.B. BASIS OF PRESENTATION (Continued)

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

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

The City reports the following major governmental funds:

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

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

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

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

The City reports the following major proprietary funds:

The *201 Sewer* and *Uptown Sewer Funds* account for business-like activities related to the operation of sewer systems provided to the general public. These activities are financed primarily by user charges, and the measurement of financial activity focuses on the net income measurement similar to the private sector.

Additionally, the government reports the following nonmajor fund types:

The *Special Revenue Fund* accounts for funds received by the City with a specific purpose.

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

1.C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

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

Measurement Focus

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

CITY OF SCANDIA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

In the fund financial statements, the “current financial resources” measurement focus or the “economic resources” measurement focus is used as appropriate:

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

Basis of Accounting

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

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

All proprietary funds utilize the accrual basis of accounting.

1.D. USE OF ESTIMATES

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

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

Cash and Cash Equivalents

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

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

**CITY OF SCANDIA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Interfund Transactions and Balances

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

Prepays

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

Inventories

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

Receivables

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

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

Capital Assets

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

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

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

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

CITY OF SCANDIA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Government-wide Statements

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

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

Fund Financial Statements

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

Long-Term Debt

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

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

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

Net Pension Asset/Liability

The net pension asset represents the City's allocation of its pro-rata share of the Statewide Volunteer Firefighter Fund net pension asset. The net pension liability represents the City's allocation of its pro-rata share of the Statewide General Employees Retirement Fund net pension liability.

PERA

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

Deferred Outflows/Inflows of Resources

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

CITY OF SCANDIA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

Compensated Absences

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

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

Equity Classifications

Government-wide Statements

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

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

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

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

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

Fund Statements

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

Nonspendable – Includes amounts that cannot be spent because they are either not in spendable form, or legally or contractually required to be maintained intact. The nonspendable fund balances at December 31, 2021 consist of inventory, prepaid expenditures, and advances to other funds.

CITY OF SCANDIA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

Unassigned – This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. The City has formally adopted a policy under which it strives to maintain a minimum unassigned general fund balance equal to approximately 35%-50% of annual General Fund operating expenditures.

See Note 2.E. for additional disclosures.

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

1.F. REVENUES, EXPENDITURES, AND EXPENSES

Property Tax

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

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

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

Operating Revenues and Expenses

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

**CITY OF SCANDIA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Expenditures/Expenses

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

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

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

Proprietary Fund – By Operating and Nonoperating

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

Interfund Transfers

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

NOTE 2 DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS

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

2.A. CASH, CASH EQUIVALENTS, AND INVESTMENTS

Deposits

In accordance with applicable Minnesota Statutes, the City maintains deposits at depository banks authorized by the City Council. Minnesota Statutes require that all City deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds. The City complies with such laws.

Authorized collateral in lieu of a corporate surety bond includes:

- United States Government Treasury bills, Treasury notes, Treasury bonds;
- Issues of United States government agencies and instrumentalities as quoted by a recognized industry quotation service available to the government entity;

**CITY OF SCANDIA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021**

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

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

- A general obligation of a state or local government, with taxing powers, rated “A” or better;
- A revenue obligation of a state or local government, with taxing powers, rated “AA” or better;
- Unrated general obligation securities of a local government, with taxing powers, pledged as collateral against funds deposited by that same local government entity;
- Irrevocable standby letter of credit issued by a Federal Home Loan Bank accompanied by written evidence that the Federal Home Loan Bank’s public debt is rated “AA” or better by Moody’s or Standard and Poor’s; or
- Time deposits insured by any federal agency.

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

At December 31, 2021, the City’s deposits were not exposed to custodial credit risk. The City’s deposits were sufficiently covered by federal depository insurance or by collateral held by the City’s agent in the City’s name.

CITY OF SCANDIA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021

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

2.B. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2021 is as follows:

	Balance at 01/01/21	Additions	Disposals	Transfers	Balance at 12/31/21
Governmental Activities:					
Capital Assets not Being					
Depreciated					
Land	\$ 487,735	\$ -	\$ -	\$ -	\$ 487,735
Construction In Progress	37,962	826,944	-	(840,196)	24,710
Total Capital Assets not Being					
Depreciated	525,697	826,944	-	(840,196)	512,445
Capital Assets Being					
Depreciated					
Buildings	2,394,353	-	-		2,394,353
Equipment	1,346,940	166,652	(85,755)	-	1,427,837
Vehicles	1,533,253	28,630	(23,167)	-	1,538,716
Infrastructure	16,038,834	226,122	-	840,196	17,105,152
Other Improvements	222,030	-	-	-	222,030
Total Capital Assets Being					
Depreciated	21,535,410	421,404	(108,922)	840,196	22,688,088
Less: Accumulated Depreciation					
Buildings	(1,162,132)	(54,047)	-	-	(1,216,179)
Equipment	(757,193)	(98,662)	85,755	-	(770,100)
Vehicles	(788,059)	(70,023)	23,167	-	(834,915)
Infrastructure	(5,035,296)	(406,580)	-	-	(5,441,876)
Other Improvements	(128,894)	(9,562)	-	-	(138,456)
Total Accumulated					
Depreciation	(7,871,574)	(638,874)	108,922	-	(8,401,526)
Total Capital Assets Being					
Depreciated, Net	13,663,836	(217,470)	-	840,196	14,286,562
Capital Assets, Net	<u>\$ 14,189,533</u>	<u>\$ 609,474</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,799,007</u>

Depreciation is charged to governmental activities as follows:

General Government	\$ 25,112
Public Safety	72,416
Public Works	523,465
Parks and Recreation	17,881
Total Depreciation Expense	<u>\$ 638,874</u>

CITY OF SCANDIA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021

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

2.B. CAPITAL ASSETS (Continued)

	Balance at 01/01/21	Additions	Disposals	Transfers	Balance at 12/31/21
Business-Type Activities:					
Capital Assets Being Depreciated					
Sewer Plant	\$ 1,500,000	\$ -	\$ -	\$ -	\$ 1,500,000
Equipment	269,734	5,690	-	-	275,424
Uptown Sewer	243,827	-	-	-	243,827
Total Capital Assets Being Depreciated	2,013,561	5,690	-	-	2,019,251
Less: Accumulated Depreciation					
Sewer Plant	(930,000)	(30,000)	-	-	(960,000)
Equipment	(51,679)	(18,668)	-	-	(70,347)
Uptown Sewer	(72,951)	(4,875)	-	-	(77,826)
Total Accumulated Depreciation	(1,054,630)	(53,543)	-	-	(1,108,173)
Business-Type Activities	\$ 958,931	\$ (47,853)	\$ -	\$ -	\$ 911,078

2.C. NONCURRENT LIABILITIES

The City's long-term debt is segregated between the amounts to be repaid from governmental activities and amounts to be repaid from business-type activities (none). All bonds and certificates set forth below are direct obligations of the City and pledge the full faith and credit of the City.

CITY OF SCANDIA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021

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

2.C. NONCURRENT LIABILITIES (Continued)

Debt Detail

As of December 31, 2021, the long-term debt of the financial reporting entity consists of the following:

Governmental Activities

Equipment Certificates						
Type of Debt	Issue Date	Annual Payment	Interest Rate(s)	Maturity Date	Original Amount	Remaining Amount
2013 Equipment Certificate	7/13	\$50,000 - \$65,000	0.80-3.10%	7/23	\$ 570,000	\$ 120,000
2017 Equipment Certificate	8/17	\$32,000	2.35-2.75%	8/22	160,000	32,000
Total Equipment Certificates Payable						152,000
Equipment Certificates Due Within One Year						92,000
Equipment Certificates Due After One Year						\$ 60,000
General Obligation Bonds						
Type of Debt	Issue Date	Annual Payment	Interest Rate(s)	Maturity Date	Original Amount	Remaining Amount
G.O. Bonds, Series 2018A	5/18	\$155,000 - \$315,000	3.00-3.13%	12/33	\$ 3,835,000	\$ 3,245,000
Bonds Due Within One Year						230,000
Bonds Due After One Year						\$ 3,015,000

Changes in Noncurrent Liabilities

The following is a summary of changes in noncurrent liabilities, excluding net pension liability, for the year ended December 31, 2021:

Type of Debt	Balance 1/1/21	Additions	Deductions	Balance 12/31/21	Amounts Due Within One Year
<i>Governmental Activities:</i>					
Bonds	\$ 3,465,000	\$ -	\$ (220,000)	\$ 3,245,000	\$ 230,000
Unamortized Bond Premium	48,461	-	(3,728)	44,733	-
Equipment Certificates	244,000	-	(92,000)	152,000	92,000
Compensated Absences	38,228	38,114	(37,585)	38,757	38,757
Total	\$ 3,795,689	\$ 38,114	\$ (353,313)	\$ 3,480,490	\$ 360,757

Interest and other fiscal charges total \$108,153 in the Statement of Activities (included in Debt Service line). Interest and other fiscal charges total \$115,018 for the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds (included in the line Interest and Other Charges).

**CITY OF SCANDIA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021**

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

2.C. NONCURRENT LIABILITIES (Continued)

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

Annual Debt Service Requirements

At December 31, 2021, the estimated annual debt service requirements to maturity, including principal and interest, are as follows:

Years Ending December 31,	Governmental Activities		
	Principal	Interest	Total
2022	\$ 322,000	\$ 101,795	\$ 423,795
2023	295,000	92,155	387,155
2024	245,000	84,175	329,175
2025	250,000	76,825	326,825
2026	255,000	69,325	324,325
2027-2031	1,410,000	226,325	1,636,325
2032-2033	620,000	29,219	649,219
Totals	<u>\$ 3,397,000</u>	<u>\$ 679,819</u>	<u>\$ 4,076,819</u>

2.D. INTERFUND TRANSACTIONS AND BALANCES

Operating transfers consist of the following for the year ended December 31, 2021:

Major Funds	Transfers Out	Transfers In			Total
		Major Funds		Nonmajor Funds	
		Capital Improvement	Local Road Improvement	Governmental	
General	<u>\$ 282,690</u>	<u>\$ 200,000</u>	<u>\$ 80,000</u>	<u>\$ 2,690</u>	<u>\$ 282,690</u>

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

**CITY OF SCANDIA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021**

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

2.D. INTERFUND TRANSACTIONS AND BALANCES (Continued)

The interfund balances are as follows:

Long-Term Advances		Amount	Reason
Due To Fund	Due From Fund		
Capital Improvement	Uptown Sewer	\$ 15,828	Sewer improvements
Capital Improvement	Park Capital Improvement	8,000	Lilleskogen Park improvements
Capital Improvement	General Fund	24,000	Community Center LED lighting improv.
Governmental Funds Advances To/From		\$ 47,828	
Governmental Fund Elimination		(32,000)	
Government-wide Internal Balances		\$ 15,828	

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

**CITY OF SCANDIA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021**

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

2.E. FUND EQUITY

At December 31, 2021, governmental fund equity consists of the following:

General Fund	
Nonspendable - Prepaids and Inventory	\$ 19,622
Unassigned	<u> 1,330,672</u>
Total General Fund Balance	<u><u>\$ 1,350,294</u></u>
Capital Improvement Fund	
Nonspendable - Advance to Other Fund	\$ 47,828
Committed for Capital Improvements	<u> 588,076</u>
Total Capital Improvement Fund	<u><u>\$ 635,904</u></u>
Local Road Improvement Fund	
Assigned for Local Road Improvements	<u><u>\$ 1,252,549</u></u>
Debt Service Fund	
Restricted for Debt Service	<u><u>\$ 45,963</u></u>
Nonmajor Governmental Funds	
Nonspendable - Prepaids	\$ 295
Restricted for COVID Relief	228,181
Restricted for Trail Development	175
Committed for Economic Development	29,044
Committed for Park Improvements	140,216
Committed for Equipment Replacement	89,927
Assigned for Cable TV	39,473
Assigned for Equipment Replacement	<u> 226,506</u>
Total Nonmajor Governmental Funds Balance	<u><u>\$ 753,817</u></u>

CITY OF SCANDIA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021

NOTE 3 DEFINED BENEFIT PENSION PLANS - STATEWIDE

Plan Description

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

General Employees Retirement Plan

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

Public Employees Police and Fire Plan

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

Benefits Provided

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

General Employees Plan Benefits

General Employees Plan benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for Coordinated members is 1.2 percent for each of the first 10 years of service and 1.7 percent for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7 percent for all years of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

Benefit increases are provided to benefit recipients each January. The postretirement increase is equal to 50 percent of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1 percent and a maximum of 1.5 percent. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase. Recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a reduced prorated increase. For members retiring on January 1, 2024, or later, the increase will be delayed until normal retirement age (age 65 if hired prior to July 1, 1989, or age 66 for individuals hired on or after July 1, 1989). Members retiring under Rule of 90 are exempt from the delay to normal retirement.

Police and Fire Plan Benefits

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

**CITY OF SCANDIA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 3 DEFINED BENEFIT PENSION PLANS - STATEWIDE (Continued)

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

Contributions

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

General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in fiscal year 2021 and the City was required to contribute 7.50 percent for Coordinated Plan members. The City’s contributions to the General Employees Fund for the year ended December 31, 2021, were \$31,626. The City’s contributions were equal to the required contributions as set by State Statute.

Police and Fire Fund Contributions

Police and Fire Plan members were required to contribute 11.80 percent of their annual covered salary in fiscal year 2021 and the City was required to contribute 17.70 percent for Police and Fire Plan members. The City’s contributions to the Police and Fire Fund for the year ended December 31, 2021, were \$7,854. The City’s contributions were equal to the required contributions as set by State Statute.

Pension Costs

General Employees Fund Pension Costs

At December 31, 2021, the City reported a liability of \$256,227 for its proportionate share of the General Employees Fund’s net pension liability. The City’s net pension liability reflected a reduction due to the State of Minnesota’s contribution of \$16 million. The State of Minnesota is considered a non-employer contributing entity and the State’s contribution meets the definition of a special funding situation. The State of Minnesota’s proportionate share of the net pension liability associated with the City totaled \$7,846.

The net pension liability was measured as of June 30, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City’s proportionate share of the net pension liability was based on the City’s contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2020 through June 30, 2021, relative to the total employer contributions received from all of PERA’s participating employers. The City’s proportionate share was 0.0060 percent at the end of the measurement period and 0.0056 percent for the beginning of the period.

City’s proportionate share of the net pension liability:	\$256,227
State of Minnesota’s proportionate share of the net pension liability associated with the City	7,846
Total	\$264,073

For the year ended December 31, 2021, the City recognized pension expense of \$27,522 for its proportionate share of the General Employees Plan’s pension expense. In addition, the City recognized an additional \$633 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota’s contribution of \$16 million to the General Employees Fund.

**CITY OF SCANDIA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 3 DEFINED BENEFIT PENSION PLANS - STATEWIDE (Continued)

At December 31, 2021, the City reported its proportionate share of the General Employees Plan’s deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 1,469	\$ 7,781
Changes in actuarial assumptions	156,447	5,290
Difference between projected and actual investment earnings	-	223,365
Changes in proportionate share	17,986	1,387
Contributions paid to PERA subsequent to the measurement date	17,232	-
Total Deferred Outflows/Inflows	\$ 193,134	\$ 237,823

The \$17,232 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2022.

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

Year ended December 31:	Pension Expense
2022	\$ (6,508)
2023	\$ 1,692
2024	\$ 3,420
2025	\$ (60,525)

Police and Fire Fund Pension Costs

At December 31, 2021, the City reported a liability of \$30,104 for its proportionate share of the Police and Fire Fund’s net pension liability. The net pension liability was measured as of June 30, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City’s proportionate share of the net pension liability was based on the City’s contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2020 through June 30, 2021, relative to the total employer contributions received from all of PERA’s participating employers. The City’s proportionate share was 0.0039 percent at the end of the measurement period and 0.0058 percent for the beginning of the period.

The State of Minnesota contributed \$18 million to the Police and Fire Fund in the plan fiscal year ended June 30, 2021. The contribution consisted of \$9 million in direct state aid that does meet the definition of a special funding situation and \$9 million in supplemental state aid that does not meet the definition of a special funding situation. The \$9 million direct state was paid on October 1, 2020. Thereafter, by October 1 of each year, the state will pay \$9 million to the Police and Fire Fund until full funding is reached or July 1, 2048, whichever is earlier. The \$9 million in supplemental state aid will continue until the fund is 90 percent funded, or until the State Patrol Plan (administered by the Minnesota State Retirement System) is 90 percent funded, whichever occurs later. Strong asset returns for the fiscal year ended 2021 will accelerate the phasing out of these state contributions, although we do not anticipate them to be phased out during the fiscal year ending 2022.

CITY OF SCANDIA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021

NOTE 3 DEFINED BENEFIT PENSION PLANS - STATEWIDE (Continued)

The State of Minnesota is included as a non-employer contributing entity in the Police and Fire Retirement Plan Schedule of Employer Allocations and Schedule of Pension Amounts by Employer, Current Reporting Period Only (pension allocation schedules) for the \$9 million in direct state aid. Police and Fire Plan employers need to recognize their proportionate share of the State of Minnesota’s pension expense (and grant revenue) under GASB 68 special funding situation accounting and financial reporting requirements. For the year ended June 30, 2021, the City recognized pension expense of negative \$2,676 for its proportionate share of the Police and Fire Plan’s pension expense. The City recognized \$248 as grant revenue for its proportionate share of the State of Minnesota’s pension expense for the contribution of \$9 million to the Police and Fire Fund.

The State of Minnesota is not included as a non-employer contributing entity in the Police and Fire Pension Plan pension allocation schedules for the \$9 million in supplemental state aid. The City recognized \$351 for the year ended December 31, 2021 as revenue and an offsetting reduction of net pension liability for its proportionate share of the State of Minnesota’s on-behalf contributions to the Police and Fire Fund.

City’s proportionate share of the net pension liability:	\$30,104
State of Minnesota’s proportionate share of the net pension liability associated with the City	<u>1,362</u>
Total	<u>\$31,466</u>

At December 31, 2021, the City reported its proportionate share of the Police and Fire Plan’s deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 5,359	\$ -
Changes in actuarial assumptions	44,245	959
Difference between projected and actual investment earnings	-	52,753
Changes in proportionate share	41,165	20,871
Contributions paid to PERA subsequent to the measurement date	<u>4,101</u>	<u>-</u>
Total Deferred Outflows/Inflows	<u>\$ 94,870</u>	<u>\$ 74,583</u>

The \$4,101 reported as deferred outflows of resources related to pensions resulting from the City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2022.

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

Year ended December 31:	Pension Expense
2022	\$ 3,496
2023	\$ 3,496
2024	\$ 3,496
2025	\$ 186
2026	\$ 5,512

**CITY OF SCANDIA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 3 DEFINED BENEFIT PENSION PLANS - STATEWIDE (Continued)

Long-Term Expected Return on Investment

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

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

Actuarial Methods and Assumptions

The total pension liability in the June 30, 2021 actuarial valuation was determined using an individual entry-age normal actuarial cost method. The long-term rate of return on pension plan investments used in the determination of the total liability is 6.50 percent. This assumption is based on a review of inflation and investments return assumptions from a number of national investment consulting firms. The review provided a range of return investment return rates deemed to be reasonable by the actuary. An investment return of 6.50 percent was deemed to be within that range of reasonableness for financial reporting purposes.

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

Salary growth assumptions in the General Employees Plan range in annual increments from 10.25 percent after one year of service to 3.0 percent after 29 years of service and 6.0 percent per year thereafter. In the Police and Fire Plan, salary growth assumptions range from 11.75 percent after one year of service to 3.0 percent after 24 years of service.

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

Actuarial assumptions for the General Employees Plan are reviewed every four years. The most recent four-year experience study for the General Employees Plan was completed in 2019. The assumption changes were adopted by the Board and became effective with the July 1, 2020 actuarial valuation. The most recent four-year experience studies for the Police and Fire Plan were completed in 2020 were adopted by the Board and became effective with the July 1, 2021 actuarial valuation.

The following changes in actuarial assumptions and plan provisions occurred in 2021:

General Employees Fund

Changes in Actuarial Assumptions:

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

CITY OF SCANDIA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021

NOTE 3 DEFINED BENEFIT PENSION PLANS - STATEWIDE (Continued)

Changes in Plan Provisions:

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

Police and Fire Fund

Changes in Actuarial Assumptions:

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

Changes in Plan Provisions:

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

Discount Rate

The discount rate used to measure the total pension liability in 2021 was 6.50 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Fund and the Police and Fire Fund were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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:

**CITY OF SCANDIA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 3 DEFINED BENEFIT PENSION PLANS - STATEWIDE (Continued)

	Sensitivity Analysis					
	General Employees Fund			Police and Fire Fund		
1% Decrease in Discount Rate	5.50%	\$	522,572	5.50%	\$	95,575
Current Discount Rate	6.50%	\$	256,227	6.50%	\$	30,104
1% Increase in Discount Rate	7.50%	\$	37,674	7.50%	\$	(23,566)

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.

NOTE 4 DEFINED CONTRIBUTION PENSION PLAN - STATEWIDE

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

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

Total contributions made by the City during fiscal year 2021 were:

Contribution Amounts		Percentage of Covered Payroll		Required
Employee	Employer	Employee	Employer	Rate
\$726	\$726	5%	5%	5%

NOTE 5 STATEWIDE VOLUNTEER FIREFIGHTER RETIREMENT PLAN

Plan Description

The Scandia Fire/Rescue participates in the Statewide Volunteer Firefighter Retirement Plan (accounted for in the Volunteer Firefighter Fund), an agent multiple-employer lump-sum defined benefit pension plan administered by the Public Employees Retirement Association of Minnesota (PERA). The Volunteer Firefighter Plan covers volunteer firefighters of municipal fire departments or independent nonprofit firefighting corporations that have elected to join the plan. As of December 31, 2021, the plan covered 22 active firefighters and 5 vested terminated firefighters whose pension benefits are deferred. The plan is established and administered in accordance with *Minnesota Statutes*, Chapter 353 G.

**CITY OF SCANDIA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 5 STATEWIDE VOLUNTEER FIREFIGHTER RETIREMENT PLAN (Continued)

Benefits Provided

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

Contributions

The Volunteer Firefighter Plan is funded by fire state aid, investment earnings and, if necessary, employer contributions as specified in *Minnesota Statutes*, and voluntary City contributions. The State of Minnesota contributed \$37,484 in fire state aid to the fund for the year ended December 31, 2021. Required employer contributions are calculated annually based on statutory provisions. The City of Scandia's statutorily-required contributions to the Volunteer Firefighter Fund for the year ended December 31, 2021 were \$0.

Pension Costs

At December 31, 2021, the City of Scandia reported a net pension asset of \$189,569 for the Volunteer Firefighter Fund. The net pension asset was measured as of December 31, 2020. The total pension liability used to calculate the net pension asset in accordance with GASB 68 was determined by PERA applying an actuarial formula to specific census data certified by the fire department. The following table presents the changes in net pension asset during the year.

	<u>Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net Pension Liability (Asset)</u>
Beginning Balance 12/31/19	\$ 659,574	\$ 752,345	\$ (92,771)
Service Cost	29,799	-	29,799
Interest on Pension Liability	41,362	-	41,362
Actuarial Experience (Gains)/Losses	(18,142)	-	(18,142)
Projected Investment Earnings	-	113,188	(113,188)
Contributions (State)	-	37,484	(37,484)
PERA Administrative Fee	-	(810)	810
SBI Investment Fee	-	(45)	45
Net Changes	<u>53,019</u>	<u>149,817</u>	<u>(96,798)</u>
Balance End of Year 12/31/20	<u>\$ 712,593</u>	<u>\$ 902,162</u>	<u>\$ (189,569)</u>

For the year ended December 31, 2021, the City recognized pension expense of negative \$58,382.

At December 31, 2021, the City of Scandia reported deferred inflows of resources related to pensions from the following sources:

**CITY OF SCANDIA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 5 STATEWIDE VOLUNTEER FIREFIGHTER RETIREMENT PLAN (Continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 37,826
Difference between projected and actual investment earnings	-	82,046
Total Deferred Outflows/Inflows	\$ -	\$ 119,872

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

Year ended December 31:	Pension Expense
2022	\$ (43,628)
2023	\$ (24,725)
2024	\$ (34,280)
2025	\$ (17,239)

Actuarial Assumptions

The total pension liability at December 31, 2021, was determined using the entry age normal actuarial cost method and the following actuarial assumptions:

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

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

Discount Rate

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

Pension Liability Sensitivity

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

	1% Decrease in Discount Rate (5.0%)	Discount Rate (6.0%)	1% Increase in Discount Rate (7.0%)
Net Pension Asset	\$ 174,973	\$ 189,569	\$ 203,532

**CITY OF SCANDIA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 5 STATEWIDE VOLUNTEER FIREFIGHTER RETIREMENT PLAN (Continued)

Plan Investments

Investment Policy

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

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

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

Asset Allocation

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

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

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

Description of significant investment policy changes during the year

The SBI made no significant changes to their investment policy during fiscal year 2020 for Volunteer Firefighter Fund.

Pension Plan Fiduciary Net Position

Detailed information about the Volunteer Firefighter Fund's fiduciary net position as of December 31, 2020, is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained at www.mnpera.org.

CITY OF SCANDIA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021

NOTE 6 OTHER NOTES

6.A. RISK MANAGEMENT

Claims and Judgements

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

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

Public Health Emergency

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 10, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, and quarantines in certain areas, and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the geographical area in which the City operates. While it is unknown how long these conditions will last and what the complete financial effect will be to the City, to date, the City has not experienced any significant negative effects on its operations.

6.B. COMMITMENTS

Law Enforcement Services

The City receives law enforcement services under an agreement with Washington County. Such agreement automatically renews on an annual basis and calls for the City to compensate the County based on the actual costs incurred while providing services under the agreement. Based on the 2022 contract budget, expenditures anticipated under this agreement for 2022 are estimated at \$150,414.

6.C. NEW ACCOUNTING STANDARDS

In June 2017, the Government Accounting Standards Board (GASB) issued Statement No. 87, *Leases*. GASB Statement No. 87 (GASB 87) increases the usefulness of governmental financial statements by requiring recognition of certain lease assets and liabilities for all leases, including those that previously were classified as operating leases and recognized as income by lessors and expenditures by lessees. GASB 87 replaces the previous lease accounting methodology and establishes a single model for lease accounting based on the foundational principle that leases are a financing of the right to use an underlying asset. GASB 87 will be effective for the City's year ended December 31, 2022. The effect on net position will likely be significant

6.D. SUBSEQUENT EVENTS

Construction Projects

Subsequent to year-end and prior to issuance of these financial statements, the City approved a contract for the 2022 Street Improvement Project at an approximate cost of \$453,894.

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF SCANDIA, MINNESOTA
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2021**

	Budget Amounts- Original and Final	Actual Amounts Budgetary Basis	Variance with Budget Over (Under)
REVENUES			
Taxes			
Property Taxes	\$ 1,388,700	\$ 1,394,586	\$ 5,886
Franchise Taxes	6,000	6,965	965
Gravel Tax	10,000	30,710	20,710
Total Taxes	<u>1,404,700</u>	<u>1,432,261</u>	<u>27,561</u>
Licenses and Permits	108,400	215,320	106,920
Intergovernmental Revenue			
State Revenue			
Market Value Credit	13,000	13,806	806
Police and Fire Aid	33,700	39,178	5,478
Other State Grants and Aids	14,200	4,534	(9,666)
County Revenue			
Other County Grants and Aids	8,000	13,062	5,062
Total Intergovernmental Revenue	<u>68,900</u>	<u>70,580</u>	<u>1,680</u>
Charges for Services			
General Government	16,200	18,156	1,956
Police and Fire Contracts	36,800	30,710	(6,090)
Streets and Highways	2,600	6,182	3,582
Parks and Recreation	3,000	8,033	5,033
Total Charges for Services	<u>58,600</u>	<u>63,081</u>	<u>4,481</u>
Fines and Forfeitures	8,100	6,899	(1,201)
Miscellaneous Revenue			
Investment Earnings	17,900	3,133	(14,767)
Refunds and Reimbursements	-	24,432	24,432
Contributions and Donations	5,000	8,936	3,936
Other Miscellaneous	3,500	12,650	9,150
Total Miscellaneous Revenue	<u>26,400</u>	<u>49,151</u>	<u>22,751</u>
TOTAL REVENUES	1,675,100	1,837,292	162,192
EXPENDITURES			
General Government			
Mayor and Council	19,982	27,831	7,849
Administration and Finance	225,278	231,747	6,469
Other General Government	248,674	256,410	7,736
Capital Outlay	4,000	4,875	875
Total General Government	<u>497,934</u>	<u>520,863</u>	<u>22,929</u>

**CITY OF SCANDIA, MINNESOTA
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2021**

	<u>Budget Amounts- Original and Final</u>	<u>Actual Amounts Budgetary Basis</u>	<u>Variance with Budget Over (Under)</u>
Public Safety			
Police			
Current	147,460	144,589	(2,871)
Fire			
Current	261,378	308,448	47,070
Capital Outlay	1,400	1,148	(252)
Other Public Safety			
Current	<u>52,000</u>	<u>86,276</u>	<u>34,276</u>
Total Public Safety	<u>462,238</u>	<u>540,461</u>	<u>78,223</u>
Public Works			
Street Maintenance and Storm Sewers	611,853	516,392	(95,461)
Snow and Ice Removal	28,000	23,468	(4,532)
Street Engineering	8,500	11,909	3,409
Street Lighting	9,400	5,785	(3,615)
Capital Outlay - Other	<u>500</u>	<u>821</u>	<u>321</u>
Total Public Works	<u>658,253</u>	<u>558,375</u>	<u>(99,878)</u>
Culture and Recreation			
Parks and Recreation			
Current	144,897	110,988	(33,909)
Capital Outlay	<u>14,400</u>	<u>8,843</u>	<u>(5,557)</u>
Total Culture and Recreation	<u>159,297</u>	<u>119,831</u>	<u>(39,466)</u>
TOTAL EXPENDITURES	<u>1,777,722</u>	<u>1,739,530</u>	<u>(38,192)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(102,622)	97,762	200,384
OTHER FINANCING SOURCES (USES)			
Transfers			
From Other Funds	1,440	-	(1,440)
To Other Funds	<u>(280,000)</u>	<u>(282,690)</u>	<u>(2,690)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(278,560)</u>	<u>(282,690)</u>	<u>(4,130)</u>
NET CHANGE IN FUND BALANCE	<u>\$ (381,182)</u>	(184,928)	<u>\$ 196,254</u>
FUND BALANCE - BEGINNING		<u>1,535,222</u>	
FUND BALANCE - ENDING		<u>\$ 1,350,294</u>	

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

For the Measurement Year Ended June 30	City's Proportion of the Net Pension Liability (Asset)	City's Proportionate Share of the Net Pension Liability (Asset) (a)	State's Proportionate Share of the Net Pension Liability Associated with the City (b)	City's Proportionate Share of the Net Pension Liability and the State's Proportionate Share of the Net Pension Liability Associated with the City (a+b)	City's Covered Payroll (c)	City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll ((a+b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
<i>General Employees Retirement Pension Plan</i>							
2021	0.0060%	\$ 256,227	\$ 7,846	\$ 264,073	\$ 412,253	64.1%	87.0%
2020	0.0056%	\$ 335,746	\$ 10,402	\$ 346,148	\$ 403,027	85.9%	79.1%
2019	0.0056%	\$ 309,611	\$ 9,666	\$ 319,277	\$ 370,760	86.1%	80.2%
2018	0.0057%	\$ 316,213	\$ 10,395	\$ 326,608	\$ 380,371	85.9%	79.5%
2017	0.0053%	\$ 338,349	\$ 4,251	\$ 342,600	\$ 338,175	101.3%	75.9%
2016	0.0057%	\$ 462,812	\$ 6,071	\$ 468,883	\$ 357,680	131.1%	68.9%
2015	0.0059%	\$ 305,769	\$ -	\$ 305,769	\$ 342,106	89.4%	78.2%
<i>Public Employees Police and Fire Pension Plan</i>							
2021	0.0039%	\$ 30,104	\$ 1,362	\$ 31,466	\$ 44,542	70.6%	93.7%
2020	0.0058%	\$ 76,450	\$ 1,790	\$ 78,240	\$ 20,323	385.0%	87.2%

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

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

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

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

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

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

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

CITY OF SCANDIA, MINNESOTA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2021

NOTE 1 PUBLIC EMPLOYEES RETIREMENT PLAN – GENERAL EMPLOYEES FUND

2021 Changes

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

2020 Changes

Changes in Actuarial Assumptions

- The price inflation assumption was decreased from 2.50 percent to 2.25 percent.
- The payroll growth assumption was decreased from 3.25 percent to 3.00 percent.
- Assumed salary increase rates were changed as recommended in the June 30, 2019 experience study. The net effect is assumed rates that average 0.25 percent less than previous rates.
- Assumed rates of retirement were changed as recommended in the June 30, 2019 experience study. The changes result in more unreduced (normal) retirements and slightly fewer Rule of 90 and early retirements.
- Assumed rates of termination were changed as recommended in the June 30, 2019 experience study. The new rates are based on service and are generally lower than the previous rates for years 2-5 and slightly higher thereafter.
- Assumed rates of disability were changed as recommended in the June 30, 2019 experience study. The change results in fewer predicted disability retirements for males and females.
- The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 General Mortality table, with adjustments. The base mortality table for disabled annuitants was changed from the RP-2014 disabled annuitant mortality table to the PUB-2010 General/Teacher disabled annuitant mortality table, with adjustments.
- The mortality improvement scale was changed from Scale MP-2018 to Scale MP-2019.
- The assumed spouse age difference was changed from two years older for females to one year older.
- The assumed number of married male new retirees electing the 100 percent Joint & Survivor option changed from 35 percent to 45 percent. The assumed number of married female new retirees electing the 100 percent Joint & Survivor option changed from 15 percent to 30 percent. The corresponding number of married new retirees electing the Life annuity option was adjusted accordingly.

Changes in Plan Provisions

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

2019 Changes

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

CITY OF SCANDIA, MINNESOTA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2021

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

2018 Changes

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

2017 Changes

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

2016 Changes

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

CITY OF SCANDIA, MINNESOTA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2021

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

2015 Changes

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

NOTE 2 PUBLIC EMPLOYEES RETIREMENT PLAN – POLICE AND FIRE FUND

2021 Changes

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

2020 Changes

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

- There have been no changes since the prior valuation.

CITY OF SCANDIA, MINNESOTA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2021

NOTE 3 STATEWIDE VOLUNTEER FIREFIGHTER RETIREMENT PLAN

2020 Changes

Changes in Actuarial Assumptions

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

2019 Changes

Changes in Actuarial Assumptions

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

2018 Changes

Changes in Actuarial Assumptions

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

2017 Changes

Changes in Actuarial Assumptions

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

2016 Changes

Changes in Actuarial Assumptions

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

2015 Changes

Changes in Actuarial Assumptions

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

SUPPLEMENTARY INFORMATION

**CITY OF SCANDIA, MINNESOTA
 SUPPLEMENTAL COMBINING BALANCE SHEET
 MAJOR GOVERNMENTAL FUND – DEBT SERVICE FUND
 DECEMBER 31, 2021**

	2013 Equipment Certificates	2015 Equipment Certificates	2017 Equipment Certificates	2018A G.O. Street Bonds	Total Debt Service
ASSETS					
Cash and Cash Equivalents	<u>\$ 25,110</u>	<u>\$ 15,951</u>	<u>\$ 543</u>	<u>\$ 4,359</u>	<u>\$ 45,963</u>
FUND BALANCE					
Restricted	<u>\$ 25,110</u>	<u>\$ 15,951</u>	<u>\$ 543</u>	<u>\$ 4,359</u>	<u>\$ 45,963</u>

CITY OF SCANDIA, MINNESOTA
SUPPLEMENTAL COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
MAJOR GOVERNMENTAL FUND – DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2021

	2013 Equipment Certificates	2015 Equipment Certificates	2017 Equipment Certificates	2018A G.O. Street Bonds	Total Debt Service
REVENUES					
Taxes	\$ 68,220	\$ -	\$ 35,909	\$ 341,456	\$ 445,585
EXPENDITURES					
Debt Service:					
Principal	60,000	-	32,000	220,000	312,000
Interest and Other Charges	7,635	-	2,163	105,220	115,018
TOTAL EXPENDITURES	<u>67,635</u>	<u>-</u>	<u>34,163</u>	<u>325,220</u>	<u>427,018</u>
NET CHANGE IN FUND BALANCE	585	-	1,746	16,236	18,567
FUND BALANCE - BEGINNING	<u>24,525</u>	<u>15,951</u>	<u>(1,203)</u>	<u>(11,877)</u>	<u>27,396</u>
FUND BALANCE - ENDING	<u>\$ 25,110</u>	<u>\$ 15,951</u>	<u>\$ 543</u>	<u>\$ 4,359</u>	<u>\$ 45,963</u>

**CITY OF SCANDIA, MINNESOTA
COMBINING BALANCE SHEET
ALL NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2021**

	Special Revenue			Capital Project			Total Nonmajor Funds
	Economic Development Authority Fund	Cable TV Fund	COVID Relief	Gateway Trail Expansion Fund	Park Capital Improvement Fund	Equipment Replacement Fund	
ASSETS							
Cash and Cash Equivalents	\$ 29,044	\$ 37,542	\$ 228,181	\$ 175	\$ 148,216	\$ 316,433	\$ 759,591
Accounts Receivable	-	1,931	-	-	9,000	-	10,931
Prepays	295	-	-	-	-	-	295
TOTAL ASSETS	<u>\$ 29,339</u>	<u>\$ 39,473</u>	<u>\$ 228,181</u>	<u>\$ 175</u>	<u>\$ 157,216</u>	<u>\$ 316,433</u>	<u>\$ 770,817</u>
LIABILITIES							
Advances from Other Funds	\$ -	\$ -	\$ -	\$ -	\$ 8,000	\$ -	\$ 8,000
DEFERRED INFLOWS OF RESOURCES							
Unavailable Revenue:							
Other Receivables	-	-	-	-	9,000	-	9,000
FUND BALANCES							
Nonspendable	295	-	-	-	-	-	295
Restricted	-	-	228,181	175	-	-	228,356
Committed	29,044	-	-	-	140,216	89,927	259,187
Assigned	-	39,473	-	-	-	226,506	265,979
Total Fund Balances	<u>29,339</u>	<u>39,473</u>	<u>228,181</u>	<u>175</u>	<u>140,216</u>	<u>316,433</u>	<u>753,817</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u>\$ 29,339</u>	<u>\$ 39,473</u>	<u>\$ 228,181</u>	<u>\$ 175</u>	<u>\$ 157,216</u>	<u>\$ 316,433</u>	<u>\$ 770,817</u>

CITY OF SCANDIA, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
ALL NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2021

	Special Revenue			Capital Project			Total Nonmajor Funds
	Economic Development Authority Fund	Cable TV Fund	COVID Relief	Gateway Trail Expansion Fund	Park Capital Improvement Fund	Equipment Replacement Fund	
REVENUES							
Taxes	\$ 5,000	\$ -	\$ -	\$ -	\$ 10,000	\$ 130,000	\$ 145,000
Franchise Taxes	-	23,193	-	-	-	-	23,193
Intergovernmental	-	-	228,181	-	5,243	-	233,424
Charges for Services	-	-	-	-	3,000	-	3,000
Interest Income	85	96	-	-	491	657	1,329
Miscellaneous	-	-	-	-	-	42,038	42,038
TOTAL REVENUES	<u>5,085</u>	<u>23,289</u>	<u>228,181</u>	<u>-</u>	<u>18,734</u>	<u>172,695</u>	<u>447,984</u>
EXPENDITURES							
Current:							
General Government	-	5,906	-	-	-	-	5,906
Economic Development	2,754	-	-	-	-	-	2,754
Capital Outlay	-	-	-	-	18,345	40,073	58,418
TOTAL EXPENDITURES	<u>2,754</u>	<u>5,906</u>	<u>-</u>	<u>-</u>	<u>18,345</u>	<u>40,073</u>	<u>67,078</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	2,331	17,383	228,181	-	389	132,622	380,906
OTHER FINANCING SOURCES (USES)							
Transfers In	-	-	2,690	-	-	-	2,690
NET CHANGE IN FUND BALANCES	2,331	17,383	230,871	-	389	132,622	383,596
FUND BALANCES - BEGINNING	<u>27,008</u>	<u>22,090</u>	<u>(2,690)</u>	<u>175</u>	<u>139,827</u>	<u>183,811</u>	<u>370,221</u>
FUND BALANCES - ENDING	<u>\$ 29,339</u>	<u>\$ 39,473</u>	<u>\$ 228,181</u>	<u>\$ 175</u>	<u>\$ 140,216</u>	<u>\$ 316,433</u>	<u>\$ 753,817</u>

**CITY OF SCANDIA, MINNESOTA
SCHEDULE OF INDEBTEDNESS
FOR THE YEAR ENDED DECEMBER 31, 2021
(UNAUDITED)**

	<u>Issue Dates</u>	<u>Interest Rates</u>	<u>Maturity Dates</u>	<u>Initial Authorized Issue</u>	<u>Outstanding Balance 01/01/21</u>	<u>Issued</u>	<u>Paid</u>	<u>Outstanding Balance 12/31/21</u>	<u>Principal Due Within One Year</u>
GOVERNMENTAL INDEBTEDNESS									
2013 Certificates of Indebtedness	7/1/2013	0.80-3.10%	7/1/2023	\$ 570,000	\$ 180,000	\$ -	\$ 60,000	\$ 120,000	\$ 60,000
2017 Certificates of Indebtedness	8/1/2017	2.35-2.75%	8/1/2022	160,000	64,000	-	32,000	32,000	32,000
G.O. Street Reconstruction Bonds, Series 2018A	5/15/2018	3.00-3.13%	12/15/2033	3,835,000	3,465,000	-	220,000	3,245,000	230,000
TOTAL INDEBTEDNESS				<u>\$ 4,565,000</u>	<u>\$ 3,709,000</u>	<u>\$ -</u>	<u>\$ 312,000</u>	<u>\$ 3,397,000</u>	<u>\$ 322,000</u>

OTHER REQUIRED REPORTS

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

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council
City of Scandia, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Scandia, as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the City of Scandia's basic financial statements and have issued our report thereon dated May 31, 2022.

Internal Control Over Financial Reporting

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

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

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

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

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*.

Minnesota Legal Compliance

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

City's Response to Findings

The City of Scandia's response to the findings identified in our audit is described in the accompanying *Schedule of Findings and Responses* and *Corrective Action Plans*. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

SCHLENNER WENNER & CO.

St. Cloud, Minnesota

May 31, 2022

**CITY OF SCANDIA, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2021**

FINANCIAL STATEMENT FINDINGS

Finding 2013-001 Limited Segregation of Duties

Condition: The City has limited segregation of accounting duties.

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

Cause: There are a limited number of employees.

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

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

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

Finding 2019-001 Material Audit Adjustments

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

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

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

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

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

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

**CITY OF SCANDIA, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2021**

FINANCIAL STATEMENT FINDINGS (Continued)

Finding 2019-002 Financial Statement Preparation

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

Criteria: The City is required to report accurate financial information.

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

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

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

*Views of Responsible
Officials And Planned
Corrective Actions:*

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

**CITY OF SCANDIA, MINNESOTA
CORRECTIVE ACTION PLANS
DECEMBER 31, 2021**

FINANCIAL STATEMENT FINDINGS

Finding 2013-001 Limited Segregation of Duties

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

Finding 2019-001 Material Audit Adjustments

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

**CITY OF SCANDIA, MINNESOTA
CORRECTIVE ACTION PLANS
DECEMBER 31, 2021**

FINANCIAL STATEMENT FINDINGS (Continued)

Finding 2019-002 Limited Segregation of Duties

1. Explanation of Disagreement with Audit Finding
There is no disagreement with the audit finding.

2. Actions Planned in Response to Finding
The City will continue to have Schlenner Wenner & Co. prepare the financial statements and will continue to document the annual review of the financial statements and related footnote disclosures.

3. Office Responsible
Ken Cammilleri, City Administrator, is the official responsible for ensuring corrective action.

4. Planned Completion Date
The Corrective Action Plan will be reviewed on an ongoing basis with no anticipated completion date.

5. Plan to Monitor Completion
The City Council will be monitoring the Corrective Action Plan.