

# City of Scandia, Minnesota

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## Audited Financial Statements

December 31, 2020

**SCHLENNER  
WENNER & Co.**  
CPAs

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

**INTRODUCTORY SECTION:**

<b>CITY COUNCIL AND OFFICIALS .....</b>	<b>2</b>
---	----------

**FINANCIAL SECTION:**

<b>INDEPENDENT AUDITOR’S REPORT .....</b>	<b>4</b>
---	----------

**REQUIRED SUPPLEMENTARY INFORMATION:**

Management’s Discussion and Analysis .....	7
--	---

**BASIC FINANCIAL STATEMENTS:**

*Government-wide Financial Statements*

Statement of Net Position .....	17
---------------------------------	----

Statement of Activities .....	18
-------------------------------	----

*Fund Financial Statements*

Balance Sheet – Governmental Funds .....	19
--	----

Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position .....	20
--	----

Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds .....	21
---	----

Reconciliation of Changes in Fund Balance of Governmental Funds to the Statement of Activities .....	22
---	----

Statement of Net Position – Proprietary Funds .....	23
---	----

Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Funds .....	24
---	----

Statement of Cash Flows – Proprietary Funds .....	25
---	----

Notes to the Basic Financial Statements .....	27
---	----

**REQUIRED SUPPLEMENTARY INFORMATION:**

Budgetary Comparison Schedule – General Fund .....	54
--	----

Schedule of City’s Proportionate Share of Net Pension Liability .....	56
---	----

Schedule of City Pension Contributions .....	57
--	----

Schedule of Changes in Net Pension Liability (Asset) .....	58
--	----

Notes to the Required Supplementary Information .....	59
---	----

**SUPPLEMENTARY INFORMATION:**

Supplemental Combining Balance Sheet – Major Governmental Fund – Debt Service Fund .....	64
--	----

Supplemental Combining Schedule of Revenues, Expenditures, and Changes in Fund Balance – Major Governmental Fund – Debt Service Fund .....	65
---	----

Combining Balance Sheet – All Nonmajor Governmental Funds .....	66
---	----

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – All Nonmajor Governmental Funds .....	67
--	----

Schedule of Indebtedness .....	68
--------------------------------	----

**OTHER REQUIRED REPORTS:**

Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	70
--	----

Schedule of Findings and Responses .....	72
--	----

Corrective Action Plans .....	74
-------------------------------	----

## **INTRODUCTORY SECTION**

**CITY OF SCANDIA, MINNESOTA  
CITY COUNCIL AND OFFICIALS  
FOR THE YEAR ENDED DECEMBER 31, 2020**

**CITY COUNCIL**

		<u>Term Expires</u>
Christine Maefsky	Mayor	December 31, 2022
Jerry Cusick	Council Member	December 31, 2022
Steve Kronmiller	Council Member	December 31, 2024
Chris Ness	Council Member	December 31, 2020
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 Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Scandia, Minnesota (the City) as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements 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, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### Opinions

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, 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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**St. Cloud**  
320.251.0286

**Little Falls**  
320.632.6311

**Albany**  
320.845.2940

**Maple Lake**  
320.963.5414

**Monticello**  
763.295.5070

## **Other Matters**

### *Required Supplementary Information*

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

### *Supplementary Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, supplementary combining debt service fund schedules, combining nonmajor fund financial statements, and schedules of indebtedness, as listed in the table of contents, are presented for the purposes of additional analysis and are not a required part of the basic financial statements.

The introductory section, supplementary combining debt service fund schedules, combining nonmajor fund financial statements, and schedules of indebtedness have not been subject to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated May 18, 2021 on our consideration of the City of Scandia's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Scandia's internal control over financial reporting and compliance.



**SCHLENNER WENNER & CO.**

St. Cloud, Minnesota

May 18, 2021

**REQUIRED SUPPLEMENTARY  
INFORMATION**



**CITY OF SCANDIA, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2020**

Our discussion and analysis of the City of Scandia's financial performance provides an overview of the City's financial activities for the year ended December 31, 2020. Please read it in conjunction with the independent auditor's report on page four and the City's financial statements, which begin on page seventeen.

**FINANCIAL HIGHLIGHTS**

- The City's net position increased \$404,545 compared to the prior year as a result of this year's operations.
- The City's General Fund generated more revenue than budgeted by \$57,011, excluding transfers in from other funds. Expenditures were less than budgeted by \$229,701, excluding transfers to other funds which exceeded budgeted amounts by \$27,000. See additional detail pertaining to differences between budgeted and actual amounts at the General Fund's Budgetary Comparison Schedule on page fifty-four.
- The unassigned fund balance in the General Fund of \$1,520,442 is 84 percent of the 2020 General Fund budgeted expenditures, excluding budgeted transfers to other funds.
- In the City's Sewer utility funds, revenues increased \$41,053 (or 37.37 percent), while operating expenses increased \$1,093 (or 0.83 percent). The City's utility funds ended 2020 with a net gain of \$17,634, with the cash position decreasing \$45,228, due to capital improvements during 2020.

**USING THIS ANNUAL REPORT**

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

**Reporting the City as a Whole**

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

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

**CITY OF SCANDIA, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2020**

**USING THIS ANNUAL REPORT (Continued)**

**Reporting the City as a Whole (Continued)**

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

- **Governmental Activities** – Most of the City's basic services are reported here, including law enforcement, fire, public works, parks, planning, and general administration. Property taxes, special assessments, licenses, permits and fees, and state aids finance most of these activities.
- **Business-type Activities** – The City charges a fee to customers to help it cover all or most of the cost of certain services it provides. The City's 201 Sewer and Uptown sewer systems are reported here.

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

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

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

**CITY OF SCANDIA, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2020**

**THE CITY AS A WHOLE**

The City's combined net position increased \$404,545 from a year ago. Our analysis below focuses on the net position (Table 1) and changes in net position (Table 2) of the City's governmental and business-type activities.

**Table 1  
Net Position**

	Governmental Activities		Business-Type Activities		Total Government	
	2020	2019	2020	2019	2020	2019
Current and Other Assets	\$ 4,997,843	\$ 4,747,461	\$ 65,621	\$ 111,395	\$ 5,063,464	\$ 4,858,856
Net Capital Assets	<u>14,189,533</u>	<u>14,123,434</u>	<u>958,931</u>	<u>895,786</u>	<u>15,148,464</u>	<u>15,019,220</u>
Total Assets	19,187,376	18,870,895	1,024,552	1,007,181	20,211,928	19,878,076
Deferred Outflows of Resources	100,726	69,168	1,923	2,244	102,649	71,412
Current Liabilities	428,303	208,467	9,702	5,643	438,005	214,110
Noncurrent Liabilities	<u>4,189,569</u>	<u>4,429,186</u>	<u>18,316</u>	<u>19,674</u>	<u>4,207,885</u>	<u>4,448,860</u>
Total Liabilities	4,617,872	4,637,653	28,018	25,317	4,645,890	4,662,970
Deferred Inflows of Resources	96,613	115,704	904	4,189	97,517	119,893
Net Position:						
Net Investment in						
Capital Assets	10,432,072	9,898,338	958,931	895,786	11,391,003	10,794,124
Restricted	32,356	29,505	-	-	32,356	29,505
Unrestricted	<u>4,109,189</u>	<u>4,258,863</u>	<u>38,622</u>	<u>84,133</u>	<u>4,147,811</u>	<u>4,342,996</u>
Total Net Position	<u>\$ 14,573,617</u>	<u>\$ 14,186,706</u>	<u>\$ 997,553</u>	<u>\$ 979,919</u>	<u>\$ 15,571,170</u>	<u>\$ 15,166,625</u>

The net position of the City's governmental activities increased by \$386,911 (or 2.73 percent). Unrestricted net position (the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements) decreased by \$149,674 (or 3.51 percent) compared to the prior year.

The net position of the City's business-type activities increased by \$17,634 (or 1.80 percent), while the unrestricted net position decreased from \$84,133 to \$38,622 due to the City's investment in capital assets and infrastructure throughout the year, which resulted in a greater portion of the net position being classified as Net Investment in Capital Assets. Aside from this, operations were comparable to the prior year.

**CITY OF SCANDIA, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2020**

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

**Table 2  
Changes in Net Position**

	Governmental Activities		Business-Type Activities		Total Government	
	2020	2019	2020	2019	2020	2019
<b>REVENUE</b>						
Charges for Services	\$ 202,001	\$ 233,576	\$ 95,721	\$ 101,773	\$ 297,722	\$ 335,349
Operating Grants and Contributions	59,964	140,117	-	-	59,964	140,117
Capital Grants and Contributions	-	-	6,844	4,824	6,844	4,824
Taxes	2,443,959	2,268,165	-	-	2,443,959	2,268,165
Intergovernmental	346,296	45,549	47,213	46	393,509	45,595
Franchise Fees	25,435	24,934	-	-	25,435	24,934
Investment Income	43,124	65,463	594	3,226	43,718	68,689
Other	5,115	145,682	550	-	5,665	145,682
<b>Total Revenues</b>	<b>3,125,894</b>	<b>2,923,486</b>	<b>150,922</b>	<b>109,869</b>	<b>3,276,816</b>	<b>3,033,355</b>
<b>PROGRAM EXPENSES</b>						
General Government	733,481	528,579	-	-	733,481	528,579
Public Safety	453,190	409,616	-	-	453,190	409,616
Public Works	1,277,674	1,347,433	-	-	1,277,674	1,347,433
Culture and Recreation	171,595	124,141	-	-	171,595	124,141
Economic Development	881	10,950	-	-	881	10,950
Debt Service	117,055	122,557	-	-	117,055	122,557
201 Sewer	-	-	120,995	118,015	120,995	118,015
Uptown Sewer	-	-	12,293	14,180	12,293	14,180
<b>Total Expenses</b>	<b>2,753,876</b>	<b>2,543,276</b>	<b>133,288</b>	<b>132,195</b>	<b>2,887,164</b>	<b>2,675,471</b>
Gain on Sale of Assets	14,893	-	-	-	14,893	-
Transfers	-	2,640	-	(2,640)	-	-
<b>Change in Net Position</b>	<b>386,911</b>	<b>382,850</b>	<b>17,634</b>	<b>(24,966)</b>	<b>404,545</b>	<b>357,884</b>
<b>Net Position - Beginning of Year</b>	<b>14,186,706</b>	<b>13,803,856</b>	<b>979,919</b>	<b>1,004,885</b>	<b>15,166,625</b>	<b>14,808,741</b>
<b>Net Position - End of Year</b>	<b>\$ 14,573,617</b>	<b>\$ 14,186,706</b>	<b>\$ 997,553</b>	<b>\$ 979,919</b>	<b>\$ 15,571,170</b>	<b>\$ 15,166,625</b>

The City's total revenues increased by \$243,461 (or 8.03 percent). Operations were comparable to the prior year, but various changes of significance include:

- Intergovernmental revenues increased by \$347,914 from 2019 primarily due to the Coronavirus Relief Aid received in the current year.
- Taxes increased from 2019 by \$175,794 primarily due to an increase in property taxes during the current year.
- Other revenues decreased by \$140,017 from 2019 primarily due to the sale of City-owned land during the prior year.

**CITY OF SCANDIA, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2020**

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

The total cost of all programs and services increased by \$211,693 (or 7.91 percent), primarily due to costs incurred in response to the pandemic, using coronavirus relief funding received from the State.

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

**Governmental Activities**

Revenue for the City's governmental activities increased \$202,408 (or 6.92 percent), while total expenses increased by \$210,600 (or 8.28 percent). Revenues and expenses were generally consistent year to year, with the exception of the matters previously noted.

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

**Table 3  
Governmental Activities**

	Total Cost of Services		Net Cost of Services	
	2020	2019	2020	2019
General Government	\$ 733,481	\$ 528,579	\$ 578,549	\$ 355,687
Public Safety	453,190	409,616	369,619	333,869
Public Works	1,277,674	1,347,433	1,269,558	1,302,864
Culture and Recreation	171,595	124,141	156,249	43,656
Economic Development	881	10,950	881	10,950
Debt Service	117,055	122,557	117,055	122,557
Totals	<u>\$ 2,753,876</u>	<u>\$ 2,543,276</u>	<u>\$ 2,491,911</u>	<u>\$ 2,169,583</u>

**Business-type Activities**

Revenues of the City's business-type activities (see Table 2) increased by \$41,053 (or 37.37 percent). Expenses increased by \$1,093 (or 0.83 percent). Operations were comparable to those of the prior year.

**THE CITY'S FUNDS**

**Governmental Funds**

As the City completed the year, its governmental funds (as presented in the balance sheet on page nineteen) reported a combined fund balance of \$4,393,949. This is a decrease of \$67,772 (or 1.52 percent) from the prior year. This decrease in fund balance is the net result of a multitude of transactions, but a few of the largest contributing factors unique to the current year's operations are as follows:

- During 2020, the City received \$393,345 in intergovernmental revenues primarily for coronavirus relief, which is \$234,175 (147.12 percent) greater than 2019.

**CITY OF SCANDIA, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2020**

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

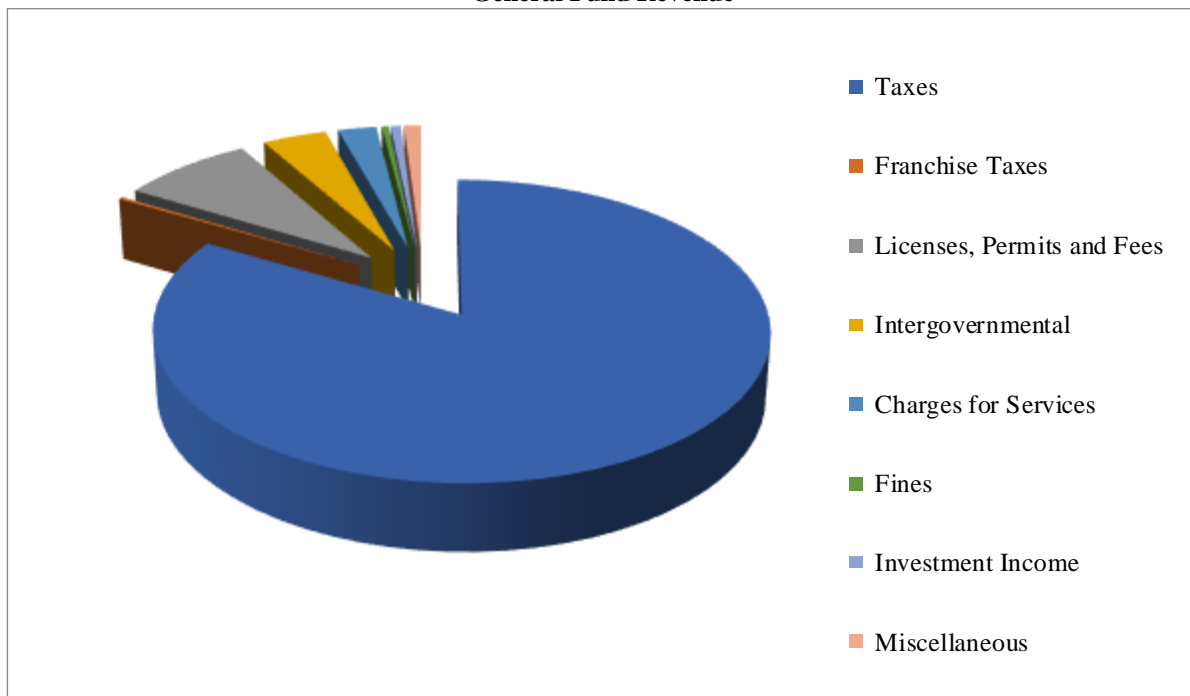
- Expenditures for capital outlay had an overall increase of \$647,102 (179.07 percent) from 2019.

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

Major Funds	Fund Balance December 31,		Increase (Decrease)
	2020	2019	
<b>General</b>	\$ 1,535,222	\$ 1,267,024	\$ 268,198

The fund balance of the General Fund increased by \$268,198 as a result of current year operations. In comparison to the prior year, revenues increased 6.94 and expenditures decreased 5.42 percent.

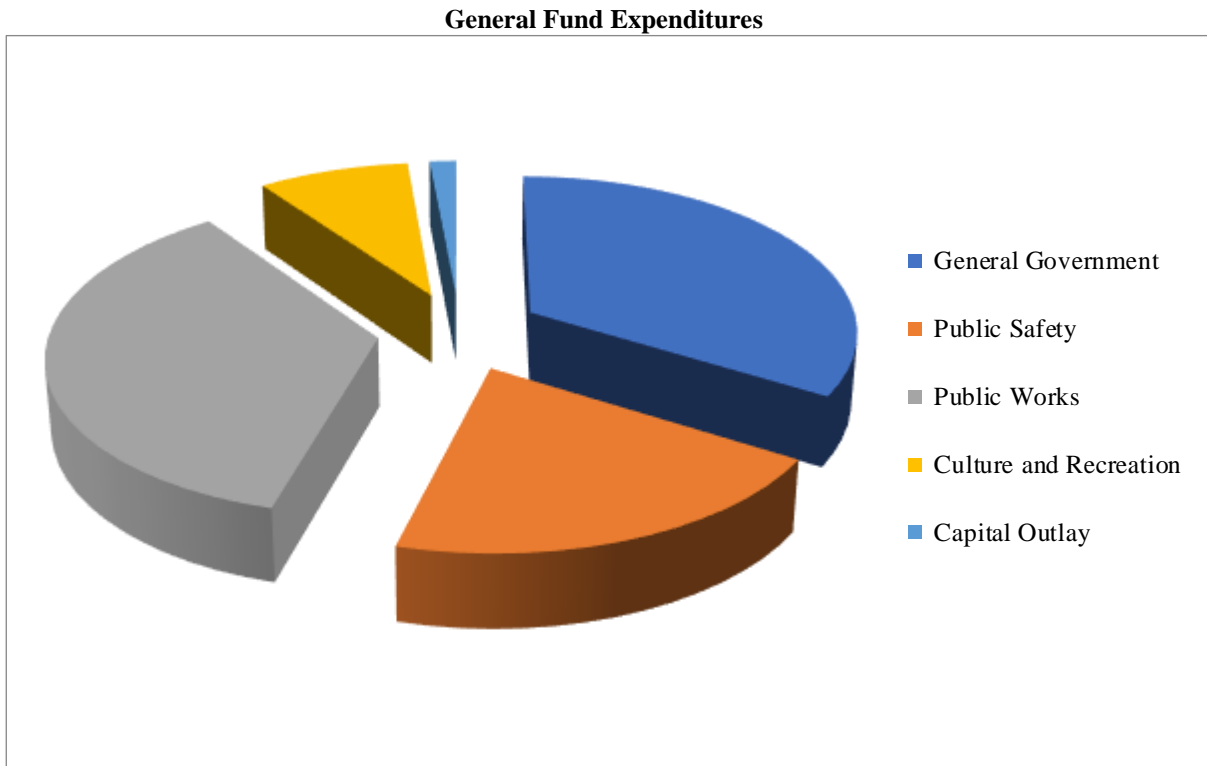
**General Fund Revenue**



The City receives the majority of its funding in the General Fund in the form of taxes (83 percent), licenses, permits, and fees (8 percent), intergovernmental (4 percent), and charges for services (2 percent). Overall, the City's General Fund revenues were comparable to the prior year, with the exception of matters previously discussed.

**CITY OF SCANDIA, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2020**

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



A significant portion of the City's General Fund expenditures are used for public works (36 percent). Remaining expenditures are used primarily on public safety (20 percent) and general government operations (34 percent). Overall, the City's General Fund expenditures were comparable to the prior year.

**General Fund Budgetary Highlights**

The City's General Fund generated more revenue than budgeted of \$74,711, including transfers from other funds. Expenditures, including transfers out to other funds, were less than those budgeted by \$202,701. See additional detail pertaining to differences between budgeted and actual amounts within the General Fund previously discussed and at the Budgetary Comparison Schedule on page fifty-four.

Major Funds	Fund Balance December 31,		Increase (Decrease)
	2020	2019	
<b>Capital Improvement Fund</b>	\$ 860,659	\$ 1,113,754	\$ (253,095)

At December 31, 2020, the Capital Improvement Fund has a cash balance of \$971,990. The fund balance of the Capital Improvement Fund decreased by \$253,095. Significant activity in this fund during 2020 included the installation of a door access system and audio-visual upgrades at the Community Center, and a John Deere Loader for Public Works.

**CITY OF SCANDIA, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2020**

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

Major Funds	Fund Balance December 31,		Increase (Decrease)
	2020	2019	
<b>Local Road Improvement Fund</b>	\$ 1,600,451	\$ 1,652,100	\$ (51,649)

At December 31, 2020, the Local Road Improvement Fund has a cash balance of \$1,633,974. The fund balance decreased by \$51,649 primarily due to capital expenditures for street reconstruction projects exceeding the revenue sources for the fund.

<b>Debt Service</b>	\$ 27,396	\$ 32,170	\$ (4,774)
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At December 31, 2020, the Debt Service Fund has a cash balance of \$36,541. The fund balance decreased by \$4,774 primarily due to the payment of principal and interest exceeding revenues from property taxes.

**Proprietary Funds**

As the City completed the year, its business-type activities (as presented in the statement of net position on page twenty-three) reported a combined net position of \$997,553. This is an increase of \$17,634 from the prior year. Other operations were comparable to the prior year. The following is a summary of the City's major proprietary funds:

Major Funds	Net Position December 31,		Increase (Decrease)
	2020	2019	
<b>201 Sewer Fund</b>	\$ 828,105	\$ 810,976	\$ 17,129

The 201 Sewer Fund provides sanitary sewer services to customers in the Anderson-Erickson and Bliss subdivisions. At December 31, 2020, the fund had a cash balance of \$46,438 with a decrease in cash of \$44,663 for the year. The decrease in cash is attributable to purchases of capital assets. The fund's net position increased \$17,129 during the current year, largely as a result of Federal disaster grant funding received during the year.

<b>Uptown Sewer Fund</b>	\$ 169,448	\$ 168,943	\$ 505
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The Uptown Sewer Fund provides sanitary sewer services to commercial customers near the Olinda Trail / Oakhill intersection. At December 31, 2020, the fund had a cash balance of \$18,767 with a decrease in cash of \$565 for the year. The decrease in cash is attributable to repayments of amounts due to the Capital Improvement Fund. The fund's net position increased \$505 during the year as a result of operating revenues exceeding expenses from charges for services and other activities. Operations in this fund were comparable to the prior year.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

At the end of 2020, the City had \$15,148,464 invested in a broad range of capital assets, including land, buildings, equipment and vehicles, infrastructure, improvements, and sewer systems. This amount represents a net increase of \$243,151 (or 1.63 percent) from last year.



**CITY OF SCANDIA, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2020**

**CAPITAL ASSET AND DEBT ADMINISTRATION (Continued)**

**Table 4  
Capital Assets Net of Depreciation**

	Governmental Activities		Business-Type Activities		Totals	
	2020	2019	2020	2019	2020	2019
Land	\$ 487,735	\$ 487,735	\$ -	\$ -	\$ 487,735	\$ 487,735
Construction In Progress	37,962	55,798	-	24,874	37,962	80,672
Buildings	1,232,221	1,229,278	-	-	1,232,221	1,229,278
Equipment	589,747	449,294	218,055	95,159	807,802	544,453
Vehicles	745,194	799,194	-	-	745,194	799,194
Infrastructure	11,003,538	10,885,529	-	-	11,003,538	10,885,529
Other Improvements	93,136	102,699	-	-	93,136	102,699
Sewer Plant	-	-	570,000	600,000	570,000	600,000
Uptown Sewer	-	-	170,876	175,753	170,876	175,753
Totals	<u>\$14,189,533</u>	<u>\$14,009,527</u>	<u>\$ 958,931</u>	<u>\$ 895,786</u>	<u>\$15,148,464</u>	<u>\$14,905,313</u>

Significant capital asset acquisitions during 2020 were:

- Installation of Community Center Door Access System - \$48,950
- Installation of Community Center Audio Visual Upgrades - \$84,825
- Purchase of new John Deere Loader - \$93,498
- Capital outlay for 2020 road improvement project - \$388,535
- Bliss Lift Station control panel project - \$135,538

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

**Debt**

In 2020, the City paid off \$350,000 of the \$4,059,000 in debt that was outstanding at December 31, 2019. The City did not issue any new during 2020, bringing the total year-end balance of debt outstanding at December 31, 2020 to \$3,709,000. See additional information at Note 2.C. to the financial statements.

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

The City's elected and appointed officials considered many factors when settling the year 2021 budget, such as tax rates and fees that will be charged for the business-type activities. Sewer rates were increased by 5-7% for the 201 and Uptown community septic systems. Building growth and permit activity have been sustaining significant added value for the community, which is also expected to carry forth into 2021. Overall, the City anticipates operations for 2021 to be similar to 2020.

**CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

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

## **BASIC FINANCIAL STATEMENTS**

**CITY OF SCANDIA, MINNESOTA**  
**STATEMENT OF NET POSITION**  
**DECEMBER 31, 2020**

	Governmental Activities	Business-Type Activities	Totals
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 4,726,305	\$ 65,205	\$ 4,791,510
Property Taxes Receivable	82,744	-	82,744
Assessments Receivable	32,824	4,509	37,333
Accounts Receivable	28,189	14,245	42,434
Interest Receivable	1,742	-	1,742
Internal Balances	18,468	(18,468)	-
Inventory	6,142	-	6,142
Prepays	8,658	130	8,788
Noncurrent Assets:			
Capital Assets Not Being Depreciated	525,697	-	525,697
Capital Assets Being Depreciated (Net)	13,663,836	958,931	14,622,767
Net Pension Asset	92,771	-	92,771
<b>TOTAL ASSETS</b>	<u>19,187,376</u>	<u>1,024,552</u>	<u>20,211,928</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Pensions	100,726	1,923	102,649
<b>LIABILITIES</b>			
Accounts Payable	359,925	8,551	368,476
Salaries Payable	38,085	751	38,836
Accrued Interest Payable	3,015	-	3,015
Deposits Payable	26,528	-	26,528
Unearned Revenue	750	400	1,150
Noncurrent Liabilities:			
Amount Due Within One Year	350,228	-	350,228
Amount Due After One Year	3,445,461	-	3,445,461
Net Pension Liability	393,880	18,316	412,196
<b>TOTAL LIABILITIES</b>	<u>4,617,872</u>	<u>28,018</u>	<u>4,645,890</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Pensions	96,613	904	97,517
<b>NET POSITION</b>			
Net Investment in Capital Assets	10,432,072	958,931	11,391,003
Restricted	32,356	-	32,356
Unrestricted	4,109,189	38,622	4,147,811
<b>TOTAL NET POSITION</b>	<u>\$ 14,573,617</u>	<u>\$ 997,553</u>	<u>\$ 15,571,170</u>

**CITY OF SCANDIA, MINNESOTA  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2020**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
General Government	\$ 733,481	\$ 151,832	\$ 3,100	\$ -	\$ (578,549)	\$ -	\$ (578,549)
Public Safety	453,190	36,484	47,087	-	(369,619)	-	(369,619)
Public Works	1,277,674	8,116	-	-	(1,269,558)	-	(1,269,558)
Culture and Recreation	171,595	5,569	9,777	-	(156,249)	-	(156,249)
Economic Development	881	-	-	-	(881)	-	(881)
Debt Service	117,055	-	-	-	(117,055)	-	(117,055)
Total Governmental Activities	2,753,876	202,001	59,964	-	(2,491,911)	-	(2,491,911)
Business-Type Activities:							
201 Sewer	120,995	83,175	-	6,844	-	(30,976)	(30,976)
Uptown Sewer	12,293	12,546	-	-	-	253	253
Total Business-Type Activities	133,288	95,721	-	6,844	-	(30,723)	(30,723)
<b>TOTALS</b>	<u>\$ 2,887,164</u>	<u>\$ 297,722</u>	<u>\$ 59,964</u>	<u>\$ 6,844</u>	(2,491,911)	(30,723)	(2,522,634)
General Revenues:							
Taxes					2,443,959	-	2,443,959
Franchise and Other Tax					25,435	-	25,435
Intergovernmental					346,296	47,213	393,509
Investment Income					43,124	594	43,718
Gain on Sale of Assets					14,893	-	14,893
Miscellaneous					5,115	550	5,665
Total General Revenues					2,878,822	48,357	2,927,179
<b>CHANGE IN NET POSITION</b>					386,911	17,634	404,545
<b>NET POSITION - BEGINNING OF YEAR</b>					14,186,706	979,919	15,166,625
<b>NET POSITION - END OF YEAR</b>					<u>\$ 14,573,617</u>	<u>\$ 997,553</u>	<u>\$ 15,571,170</u>

**CITY OF SCANDIA, MINNESOTA  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2020**

	General Fund	Capital Improvement Fund	Local Road Improvement Fund	Debt Service Fund	Total Nonmajor Funds	Total Governmental Funds
<b>ASSETS</b>						
Cash and Cash Equivalents	\$ 1,702,574	\$ 971,990	\$ 1,633,974	\$ 36,541	\$ 381,226	\$ 4,726,305
Property Taxes Receivable	72,409	-	4,172	5,452	711	82,744
Assessments Receivable	-	822	32,002	-	-	32,824
Accounts Receivable	26,215	-	-	-	1,974	28,189
Interest Receivable	1,742	-	-	-	-	1,742
Due from Other Funds	18,652	-	-	-	-	18,652
Inventory	6,142	-	-	-	-	6,142
Prepays	8,658	-	-	2,640	-	11,298
Advances to Other Funds	-	56,468	-	-	-	56,468
<b>TOTAL ASSETS</b>	<u>\$ 1,836,392</u>	<u>\$ 1,029,280</u>	<u>\$ 1,670,148</u>	<u>\$ 44,633</u>	<u>\$ 383,911</u>	<u>\$ 4,964,364</u>
<b>LIABILITIES</b>						
Accounts Payable	\$ 153,156	\$ 167,799	\$ 37,695	\$ -	\$ 1,275	\$ 359,925
Salaries Payable	38,085	-	-	-	-	38,085
Deposits Payable	26,528	-	-	-	-	26,528
Due to Other Funds	-	-	-	17,237	1,415	18,652
Unearned Revenue	750	-	-	-	-	750
Advances from Other Funds	27,000	-	-	-	11,000	38,000
Total Liabilities	245,519	167,799	37,695	17,237	13,690	481,940
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Unavailable Revenue:						
Property Taxes	55,651	-	-	-	-	55,651
Special Assessments	-	822	32,002	-	-	32,824
Total Deferred Inflows of Resources	55,651	822	32,002	-	-	88,475
<b>FUND BALANCES</b>						
Nonspendable	14,800	56,468	-	2,640	-	73,908
Restricted	-	-	-	37,836	175	38,011
Committed	-	804,191	690,730	-	166,835	1,661,756
Assigned	-	-	909,721	-	205,901	1,115,622
Unassigned	1,520,422	-	-	(13,080)	(2,690)	1,504,652
Total Fund Balances	<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>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>	<u>\$ 1,836,392</u>	<u>\$ 1,029,280</u>	<u>\$ 1,670,148</u>	<u>\$ 44,633</u>	<u>\$ 383,911</u>	<u>\$ 4,964,364</u>

**CITY OF SCANDIA, MINNESOTA**  
**RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF NET POSITION**  
**DECEMBER 31, 2020**

Total Fund Balances - Governmental Funds	\$	4,393,949
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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	\$ 22,061,107	
Accumulated Depreciation	(7,871,574)	
Capital Assets (Net)		14,189,533

Long-term liabilities are not due and payable in the current period and, therefore,  
are not reported as liabilities in the funds:

Bond Principal Payable	(3,709,000)	
Bond Premium, Net of Accumulated Amortization	(48,461)	
Compensated Absences	(38,228)	
		(3,795,689)

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	92,771	
Net Pension Liability	(393,880)	
Deferred Outflows - Pensions	100,726	
Deferred Inflows - Pensions	(96,613)	
		(296,996)

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:

(5,655)

Other long-term assets are not available to pay for current-period expenditures and,  
therefore, are reported as unavailable in the funds:

Property Taxes		55,651
Special Assessments		32,824

<b>TOTAL NET POSITION OF GOVERNMENTAL ACTIVITIES</b>	<b>\$</b>	<b><u>14,573,617</u></b>
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**CITY OF SCANDIA, MINNESOTA**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**

	General Fund	Capital Improvement Fund	Local Road Improvement Fund	Debt Service Fund	Total Nonmajor Funds	Total Governmental Funds
<b>REVENUES</b>						
Taxes	\$ 1,553,879	\$ -	\$ 357,831	\$ 467,766	\$ 60,693	\$ 2,440,169
Franchise Taxes	5,104	-	-	-	20,331	25,435
Licenses, Permits, and Fees	151,164	-	-	-	-	151,164
Intergovernmental	72,885	-	-	-	320,460	393,345
Charges for Services	43,276	-	-	-	-	43,276
Fines	7,561	-	-	-	-	7,561
Interest Income	11,463	11,020	16,749	-	3,892	43,124
Miscellaneous	18,879	-	-	-	14,302	33,181
<b>TOTAL REVENUES</b>	<u>1,864,211</u>	<u>11,020</u>	<u>374,580</u>	<u>467,766</u>	<u>419,678</u>	<u>3,137,255</u>
<b>EXPENDITURES</b>						
Current:						
General Government	535,026	-	-	-	154,101	689,127
Public Safety	323,316	-	-	-	-	323,316
Public Works	568,500	-	-	-	-	568,500
Parks and Recreation	133,534	-	-	-	8,663	142,197
Economic Development	-	-	-	-	881	881
Capital Outlay	23,337	276,415	426,229	-	282,485	1,008,466
Debt Service:						
Principal	-	-	-	350,000	-	350,000
Interest and Other Charges	-	-	-	122,540	-	122,540
<b>TOTAL EXPENDITURES</b>	<u>1,583,713</u>	<u>276,415</u>	<u>426,229</u>	<u>472,540</u>	<u>446,130</u>	<u>3,205,027</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	280,498	(265,395)	(51,649)	(4,774)	(26,452)	(67,772)
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers In	17,700	30,000	-	-	-	47,700
Transfers Out	(30,000)	(17,700)	-	-	-	(47,700)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(12,300)</u>	<u>12,300</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCES</b>	268,198	(253,095)	(51,649)	(4,774)	(26,452)	(67,772)
<b>FUND BALANCES - BEGINNING</b>	<u>1,267,024</u>	<u>1,113,754</u>	<u>1,652,100</u>	<u>32,170</u>	<u>396,673</u>	<u>4,461,721</u>
<b>FUND BALANCES - ENDING</b>	<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>

**CITY OF SCANDIA, MINNESOTA**  
**RECONCILIATION OF CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**

Net Change in Fund Balances - Total Governmental Funds \$ (67,772)

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	\$ 799,618	
Depreciation Expense	(621,005)	
Loss on Disposal of Assets	<u>1,393</u>	
		180,006

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	350,000	
Amortization of Bond Premium	<u>3,728</u>	
		353,728

Net change in accrued interest on bonds and equipment certificates are not reported as expenses in the funds. 1,757

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	3,903	
Special Revenues	<u>(113)</u>	
		3,790

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	(10,168)
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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>(74,430)</u>
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<b>CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES</b>	<b><u>\$ 386,911</u></b>
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**CITY OF SCANDIA, MINNESOTA**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
**DECEMBER 31, 2020**

	201 Sewer Fund	Nonmajor Uptown Sewer Fund	Totals
<b>ASSETS</b>			
Current Assets			
Cash and Cash Equivalents	\$ 46,438	\$ 18,767	\$ 65,205
Assessments Receivable	4,509	-	4,509
Accounts Receivable	11,621	2,624	14,245
Prepays	130	-	130
Total Current Assets	62,698	21,391	84,089
Noncurrent Assets			
Capital Assets Being Depreciated (Net)	788,054	170,877	958,931
<b>TOTAL ASSETS</b>	850,752	192,268	1,043,020
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Pensions	1,534	389	1,923
<b>LIABILITIES</b>			
Current Liabilities			
Accounts Payable	8,189	362	8,551
Salaries Payable	580	171	751
Unearned Revenue	400	-	400
Total Current Liabilities	9,169	533	9,702
Noncurrent Liabilities			
Advances from Other Funds	-	18,468	18,468
Net Pension Liability	14,306	4,010	18,316
Total Noncurrent Liabilities	14,306	22,478	36,784
<b>TOTAL LIABILITIES</b>	23,475	23,011	46,486
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Pensions	706	198	904
<b>NET POSITION</b>			
Net Investment in Capital Assets	788,054	170,877	958,931
Unrestricted	40,051	(1,429)	38,622
<b>TOTAL NET POSITION</b>	<u>\$ 828,105</u>	<u>\$ 169,448</u>	<u>\$ 997,553</u>

**CITY OF SCANDIA, MINNESOTA**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**

	201 Sewer Fund	Nonmajor Uptown Sewer Fund	Totals
<b>OPERATING REVENUES</b>			
Charges for Services	\$ 83,175	\$ 12,546	\$ 95,721
<b>OPERATING EXPENSES</b>			
Wages and Benefits	19,012	4,710	23,722
Materials and Supplies	1,195	80	1,275
Repairs and Maintenance	36,668	135	36,803
Professional Services	6,851	1,119	7,970
Utilities	1,793	584	2,377
Miscellaneous	12,833	788	13,621
Depreciation	42,643	4,877	47,520
<b>TOTAL OPERATING EXPENSES</b>	<u>120,995</u>	<u>12,293</u>	<u>133,288</u>
<b>NET OPERATING INCOME (LOSS)</b>	(37,820)	253	(37,567)
<b>NONOPERATING INCOME</b>			
Special Assessments	6,844	-	6,844
Intergovernmental	47,202	11	47,213
Investment Income	353	241	594
Miscellaneous	550	-	550
<b>TOTAL NONOPERATING INCOME</b>	<u>54,949</u>	<u>252</u>	<u>55,201</u>
<b>CHANGE IN NET POSITION</b>	17,129	505	17,634
<b>NET POSITION - BEGINNING OF YEAR</b>	<u>810,976</u>	<u>168,943</u>	<u>979,919</u>
<b>NET POSITION - END OF YEAR</b>	<u>\$ 828,105</u>	<u>\$ 169,448</u>	<u>\$ 997,553</u>

**CITY OF SCANDIA, MINNESOTA  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2020**

	201 Sewer Fund	Nonmajor Uptown Sewer Fund	Totals
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash Received from Customers	\$ 83,189	\$ 15,760	\$ 98,949
Cash Paid to Suppliers	(55,020)	(2,772)	(57,792)
Cash Paid to Employees	(21,851)	(5,885)	(27,736)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>6,318</u>	<u>7,103</u>	<u>13,421</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Intergovernmental	47,202	11	47,213
Other Receipts from Customers	550	-	550
<b>NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES</b>	<u>47,752</u>	<u>11</u>	<u>47,763</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Special Assessments	11,579	-	11,579
Purchases of Capital Assets	(110,665)	-	(110,665)
Payments on Interfund Advances	-	(7,920)	(7,920)
<b>NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<u>(99,086)</u>	<u>(7,920)</u>	<u>(107,006)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Investment Income	<u>353</u>	<u>241</u>	<u>594</u>
Net Change in Cash and Cash Equivalents	(44,663)	(565)	(45,228)
Cash and Cash Equivalents - Beginning of Year	<u>91,101</u>	<u>19,332</u>	<u>110,433</u>
Cash and Cash Equivalents - End of Year	<u>\$ 46,438</u>	<u>\$ 18,767</u>	<u>\$ 65,205</u>

**CITY OF SCANDIA, MINNESOTA**  
**STATEMENT OF CASH FLOWS (Continued)**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**

		Nonmajor	
	201 Sewer Fund	Uptown Sewer Fund	Totals
<b>RECONCILIATION OF NET OPERATING INCOME (LOSS) TO</b>			
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>			
Net Operating Income (Loss)	\$ (37,820)	\$ 253	\$ (37,567)
Adjustments to Reconcile Net Operating Income (Loss)			
to Net Cash Provided by Operating Activities:			
Depreciation Expense	42,643	4,877	47,520
Changes in Assets, Liabilities, and Deferrals:			
Accounts Receivable	647	3,214	3,861
Assessments Receivable	(633)	-	(633)
Prepays	(130)	-	(130)
Accounts Payable	4,450	(66)	4,384
Salaries Payable	254	54	308
Net Pension Liability	(803)	(555)	(1,358)
Deferred Outflows or Resources - Pensions	221	100	321
Deferred Inflows or Resources - Pensions	(2,511)	(774)	(3,285)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$ 6,318</b>	<b>\$ 7,103</b>	<b>\$ 13,421</b>

**CITY OF SCANDIA, MINNESOTA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020**

**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 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 government-wide 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, 2020**

**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, 2020**

**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 contingencies related to these balances 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, 2020**

**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 and 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 are 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, 2020**

**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, 2020**

**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 and special assessments as deferred inflows of resources in the governmental fund financial statements, in accordance with the modified accrual basis of accounting. In addition, the City reports deferred inflows of resources in the government-wide and proprietary 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, 2020 consist of inventory, prepaid expenditures, and advances to other funds.

**CITY OF SCANDIA, MINNESOTA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020**

**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, 2020**

**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, 2020**

**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, 2020, 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, 2020**

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

**2.B.     CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2020 is as follows:

	Balance at 01/01/20	Additions	Disposals	Transfers	Balance at 12/31/20
Governmental Activities:					
Capital Assets not Being Depreciated					
Land	\$ 487,735	\$ -	\$ -	\$ -	\$ 487,735
Construction In Progress	55,798	497,473	-	(515,309)	37,962
Total Capital Assets not Being Depreciated	543,533	497,473	-	(515,309)	525,697
Capital Assets Being Depreciated					
Buildings	2,339,643	54,710	-		2,394,353
Equipment	1,120,827	230,735	(4,622)	-	1,346,940
Vehicles	1,548,033	18,200	(32,980)	-	1,533,253
Infrastructure	15,523,525	-	-	515,309	16,038,834
Other Improvements	227,163	-	(5,133)	-	222,030
Total Capital Assets Being Depreciated	20,759,191	303,645	(42,735)	515,309	21,535,410
Less: Accumulated Depreciation					
Buildings	(1,110,365)	(51,767)	-	-	(1,162,132)
Equipment	(671,533)	(90,282)	4,622	-	(757,193)
Vehicles	(748,839)	(72,093)	32,873	-	(788,059)
Infrastructure	(4,637,996)	(397,300)	-	-	(5,035,296)
Other Improvements	(124,464)	(9,563)	5,133	-	(128,894)
Total Accumulated Depreciation	(7,293,197)	(621,005)	42,628	-	(7,871,574)
Total Capital Assets Being Depreciated, Net	13,465,994	(317,360)	(107)	515,309	13,663,836
Capital Assets, Net	<u>\$ 14,009,527</u>	<u>\$ 180,113</u>	<u>\$ (107)</u>	<u>\$ -</u>	<u>\$ 14,189,533</u>

Depreciation is charged to governmental activities as follows:

General Government	\$ 17,405
Public Safety	67,794
Public Works	518,174
Parks and Recreation	17,632
Total Depreciation Expense	<u>\$ 621,005</u>

**CITY OF SCANDIA, MINNESOTA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020**

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

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

	Balance at 01/01/20	Additions	Disposals	Transfers	Balance at 12/31/20
Business-Type Activities:					
Capital Assets not Being Depreciated					
Construction In Progress	\$     24,874	\$    110,665	\$           -	\$   (135,539)	\$           -
Capital Assets Being Depreciated					
Sewer Plant	1,500,000	-	-	-	1,500,000
Equipment	134,195	-	-	135,539	269,734
Uptown Sewer	243,827	-	-	-	243,827
Total Capital Assets Being Depreciated	1,878,022	-	-	135,539	2,013,561
Less: Accumulated Depreciation					
Sewer Plant	(900,000)	(30,000)	-	-	(930,000)
Equipment	(39,036)	(12,643)	-	-	(51,679)
Uptown Sewer	(68,074)	(4,877)	-	-	(72,951)
Total Accumulated Depreciation	(1,007,110)	(47,520)	-	-	(1,054,630)
Total Capital Assets Being Depreciated, Net	870,912	(47,520)	-	135,539	958,931
Business-Type Activities	\$    895,786	\$     63,145	\$           -	\$           -	\$    958,931

**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, 2020**

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

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

**Debt Detail**

As of December 31, 2020, 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	\$ 180,000
2017 Equipment Certificate	8/17	\$32,000	2.35-2.75%	8/22	160,000	64,000
Total Equipment Certificates Payable						244,000
Equipment Certificates Due Within One Year						92,000
Equipment Certificates Due After One Year						\$ 152,000
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	\$ 3,465,000
Bonds Due Within One Year						220,000
Bonds Due After One Year						\$ 3,245,000

**Changes in Noncurrent Liabilities**

The following is a summary of changes in noncurrent liabilities, excluding net pension liability, for the year ended December 31, 2020:

Type of Debt	Balance 1/1/20	Additions	Deductions	Balance 12/31/20	Amounts Due Within One Year
<i>Governmental Activities:</i>					
Bonds	\$ 3,680,000	\$ -	\$ (215,000)	\$ 3,465,000	\$ 220,000
Unamortized Bond Premium	52,189	-	(3,728)	48,461	-
Equipment Certificates	379,000	-	(135,000)	244,000	92,000
Compensated Absences	28,060	39,121	(28,953)	38,228	38,228
Total	\$ 4,139,249	\$ 39,121	\$ (382,681)	\$ 3,795,689	\$ 350,228

Interest and other fiscal charges total \$117,055 in the Statement of Activities (included in Debt Service line). Interest and other fiscal charges total \$122,540 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, 2020**

**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, 2020, the estimated annual debt service requirements to maturity, including principal and interest, are as follows:

Years Ending December 31,	Governmental Activities		
	Principal	Interest	Total
2021	\$ 312,000	\$ 110,953	\$ 422,953
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
2026-2030	1,365,000	267,275	1,632,275
2031-2033	920,000	57,594	977,594
Totals	<u>\$ 3,709,000</u>	<u>\$ 790,772</u>	<u>\$ 4,499,772</u>

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

Operating transfers consist of the following for the year ended December 31, 2020:

Major Funds	Transfers Out	Transfers In		
		Major Fund		Total
		General	Capital Improvement	
General	\$ 30,000	\$ -	\$ 30,000	\$ 30,000
Capital Improvement	<u>17,700</u>	<u>17,700</u>	<u>-</u>	<u>17,700</u>
Total	<u>\$ 47,700</u>	<u>\$ 17,700</u>	<u>\$ 30,000</u>	<u>\$ 47,700</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, 2020**

**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			
Due To Fund	Due From Fund	Amount	Reason
Capital Improvement	Uptown Sewer	\$ 18,468	Sewer improvements
Capital Improvement	Park Capital Improvement	11,000	Lilleskogen Park improvements
Capital Improvement	General Fund	27,000	Community Center LED lighting improv.
Governmental Funds Advances To/From		56,468	
Short-Term Balances			
Due To Fund	Due From Fund		
General Fund	COVID Relief	1,415	Eliminate fund negative cash
General Fund	Debt Service	17,237	Eliminate sub-fund negative cash
Total Interfund Balances		\$ 75,120	
Governmental Fund Elimination		(56,652)	
Government-wide Internal Balances		\$ 18,468	

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. The remaining short-term balances above will be repaid as cash flows become available in the COVID Relief and Debt Service Funds.

**CITY OF SCANDIA, MINNESOTA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020**

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

**2.E.     FUND EQUITY**

At December 31, 2020, governmental fund equity consists of the following:

General Fund	
Nonspendable - Prepaids and Inventory	\$        14,800
Unassigned	<u>1,520,422</u>
Total General Fund Balance	<u>\$    1,535,222</u>
Capital Improvements Fund	
Nonspendable - Advance to Other Fund	\$        56,468
Committed for Capital Improvements	<u>804,191</u>
Total Capital Improvement Fund	<u>\$    860,659</u>
Local Road Improvement Fund	
Committed for Local Road Improvements	\$        690,730
Assigned for Local Road Improvements	<u>909,721</u>
Total Local Road Improvement Fund	<u>\$    1,600,451</u>
Debt Service Fund	
Nonspendable - Prepaids	\$        2,640
Restricted for Debt Service	37,836
Unassigned	<u>(13,080)</u>
Total Debt Service Fund Balance	<u>\$        27,396</u>
Nonmajor Governmental Funds	
Restricted for Trail Development	\$            175
Committed for Economic Development	27,008
Committed for Park Improvements	139,827
Assigned for Cable TV	22,090
Assigned for Equipment Replacement	183,811
Unassigned	<u>(2,690)</u>
Total Nonmajor Governmental Funds Balance	<u>\$        370,221</u>

Additionally, funds with deficit fund balances at December 31, 2020 are as follows:

Fund	Fund Deficit
Nonmajor Special Revenue	
COVID Relief	\$        2,690

This fund deficit is expected to be covered from future revenues, tax levies or transfers.

**CITY OF SCANDIA, MINNESOTA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020**

**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

The General Employees Retirement Plan covers certain full time and part-time employees of the City. 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 of average salary 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. For 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, 2020**

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

Benefit increases are provided to benefit recipients each January. The postretirement increase will be 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 2020 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, 2020 were \$32,939. The City's contributions are equal to the required contributions as set by State Statute.

Police and Fire Fund Contributions

Police and Fire member's contribution rates increased from 11.30 percent of their annual salary to 11.80 percent and employer rates increased from 16.95 percent to 17.70 percent on January 1, 2020. The City's contributions to the Police and Fire Fund for the year ended December 31, 2020 were \$7,652. 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, 2020, the City reported a liability of \$335,746 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 \$10,402. The net pension liability was measured as of June 30, 2020, 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, 2019, through June 30, 2020, relative to the total employer contributions received from all of PERA's participating employers. The City's proportionate share was 0.0056 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:	\$335,746
State of Minnesota's proportionate share of the net pension liability associated with the City	<u>10,402</u>
Total	<u>\$346,148</u>

For the year ended December 31, 2020, the City recognized pension expense of \$29,815 for its proportionate share of the General Employees Plan's pension expense. In addition, the City recognized an additional \$905 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, 2020**

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

At December 31, 2020, 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	\$ 3,062	\$ 1,270
Changes in actuarial assumptions	-	12,514
Difference between projected and actual investment earnings	6,382	-
Changes in proportionate share	6,384	2,774
Contributions paid to PERA subsequent to the measurement date	16,525	-
Total Deferred Outflows/Inflows	<u>\$ 32,353</u>	<u>\$ 16,558</u>

The \$16,525 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, 2021. 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
2021	\$ (13,407)
2022	\$ (1,817)
2023	\$ 6,383
2024	\$ 8,111

**Police and Fire Fund Pension Costs**

At December 31, 2020, the City reported a liability of \$18,316 for its proportionate share of the Police and Fire Fund's net pension liability. The net pension liability was measured as of June 30, 2020, 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, 2019 through June 30, 2020, relative to the total employer contributions received from all of PERA's participating employers. The City's proportionate share was 0.0058 percent at the end of the measurement period and 0 percent for the beginning of the period.

The State of Minnesota contributed \$13.5 million to the Police and Fire Fund in the plan fiscal year ended June 30, 2020. The contribution consisted of \$4.5 million in direct state aid that does meet the definition of a special funding situation and \$9.0 million in supplemental state aid that does not meet the definition of a special funding situation. The \$4.5 million direct state was paid on October 1, 2019. 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.

**CITY OF SCANDIA, MINNESOTA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020**

**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 \$4.5 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 December 31, 2020, the City recognized pension expense of \$23,508 for its proportionate share of the Police and Fire Plan's pension expense. The City recognized \$551 as grant revenue for its proportionate share of the State of Minnesota's pension expense for the contribution of \$4.5 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 \$522 for the year ended December 31, 2020 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:	\$76,450
State of Minnesota's proportionate share of the net pension liability associated with the City	<u>1,790</u>
Total	<u>\$78,240</u>

At December 31, 2020, 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	\$ 1,467	\$ -
Changes in actuarial assumptions	-	1,198
Difference between projected and actual investment earnings	13,242	-
Changes in proportionate share	51,456	-
Contributions paid to PERA subsequent to the measurement date	<u>4,131</u>	<u>-</u>
Total Deferred Outflows/Inflows	<u>\$ 70,296</u>	<u>\$ 1,198</u>

The \$4,131 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, 2021. 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
2021	\$ 13,655
2022	\$ 13,655
2023	\$ 13,655
2024	\$ 13,655
2025	\$ 10,347

**CITY OF SCANDIA, MINNESOTA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020**

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

**Total Pension Expense**

The total pension expense for all plans recognized by the City for the year ended December 31, 2020, including amortization of prior year deferred balances, was negative \$7,542.

**Actuarial Assumptions**

The total pension liability in the June 30, 2020, actuarial valuation was determined using an individual entry-age normal actuarial cost method and the following actuarial assumptions:

<u>Assumptions</u>	<u>General Employees Fund</u>	<u>Police and Fire Fund</u>
Inflation	2.25 percent per year	2.50 percent per year
Active Member Payroll Growth	3.00 percent per year	3.25 percent per year
Investment Rate of Return	7.50 percent	7.50 percent

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants were based on Pub-2010 General Employee Mortality table for the General Employees Plan and RP 2014 tables for the Police and Fire Plan for males or females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases after retirement for retirees are assumed to be 1.25 percent per year for the General Employees Plan. For the Police and Fire Plan, cost of living benefit increases for retirees are 1.00 percent per year as set by State Statute.

Actuarial assumptions used in the June 30, 2020 valuation were based on the results of actuarial experience studies. 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 four-year experience study used for the Police and Fire Plan was completed in 2016. Inflation and investment return assumptions for the Police and Fire Plan are based on the General Employees Retirement Plan experience study completed in 2019. The most recent four-year experience studies for the Police and Fire Plan were completed in 2020. The recommended assumptions for those plans were adopted by the Board and will be effective with the July 1, 2021 actuarial valuations if approved by the Legislature.

The following changes in actuarial assumptions and plan provisions occurred in 2020:

General Employees Fund

Changes in Actuarial Assumptions:

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



**CITY OF SCANDIA, MINNESOTA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020**

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

- 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.

Police and Fire Fund

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.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Stocks	35.5%	5.10%
International Stocks	17.5%	5.30%
Bonds (Fixed Income)	20.0%	0.75%
Alternative Assets (Private Markets)	25.0%	5.90%
Cash	<u>2.0%</u>	0.00%
Total	<u>100%</u>	

**Discount Rate**

The discount rate used to measure the total pension liability in 2019 was 7.50 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, 2020**

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

	Sensitivity Analysis					
	General Employees Fund			Police and Fire Fund		
1% Decrease in Discount Rate	6.50%	\$	538,084	6.50%	\$	152,376
Current Discount Rate	7.50%	\$	335,746	7.50%	\$	76,450
1% Increase in Discount Rate	8.50%	\$	168,833	8.50%	\$	13,635

**Pension Plan Fiduciary Net Position**

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

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

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

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

Total contributions made by the City during fiscal year 2020 were:

Contribution Amounts		Percentage of Covered Payroll		Required
<u>Employee</u>	<u>Employer</u>	<u>Employee</u>	<u>Employer</u>	<u>Rate</u>
\$711	\$711	5%	5%	5%

**NOTE 5     STATEWIDE VOLUNTEER FIREFIGHTER RETIREMENT PLAN**

**Plan Description**

The Scandia Fire/Rescue participates in the Statewide Volunteer Firefighter Retirement Plan (Volunteer Firefighter 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, 2020, the plan covered 22 active firefighters and 5 vested terminated fire fighters 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, 2020**

**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 \$34,426 in fire state aid to the plan for the year ended December 31, 2020. Required employer contributions are calculated annually based on statutory provisions. The City of Scandia's statutorily-required contributions to the Volunteer Firefighter Plan for the year ended December 31, 2020 were \$0.

**Pension Costs**

At December 31, 2020, the City of Scandia reported a net pension asset of \$92,771 for the Volunteer Firefighter Fund. The net pension asset was measured as of December 31, 2019. The total pension liability used to calculate the net pension asset in accordance with GASB 68 was determined by PERA applying an actuarial formula to specific census data certified by the fire department. The following table presents the changes in net pension asset during the year.

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
Beginning Balance 12/31/18	\$ 490,428	\$ 604,335	\$ (113,907)
Service Cost	31,774	-	31,774
Interest on Pension Liability	31,332	-	31,332
Actuarial Experience (Gains)/Losses	(8,940)	-	(8,940)
Projected Investment Earnings	-	112,533	(112,533)
Changes in Benefit Level	114,980	-	114,980
Contributions (State)	-	36,266	(36,266)
PERA Administrative Fee	-	(750)	750
SBI Investment Fee	-	(39)	39
Net Changes	<u>169,146</u>	<u>148,010</u>	<u>21,136</u>
Balance End of Year 12/31/19	<u>\$ 659,574</u>	<u>\$ 752,345</u>	<u>\$ (92,771)</u>

For the year ended December 31, 2020, the City recognized pension expense of \$80,320.

At December 31, 2020, the City of Scandia reported deferred inflows of resources and deferred outflows of resources if contributions were made after the measurement date and for State contributions received by PERA after the measurement date, which can be found on the website for Minnesota Department of Revenue's Fire State Aid, related to pensions from the following sources:

**CITY OF SCANDIA, MINNESOTA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020**

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 41,803
Difference between projected and actual investment earnings	-	37,958
Total Deferred Outflows/Inflows	\$ -	\$ 79,761

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
2021	\$ (28,841)
2022	\$ (26,390)
2023	\$ (7,487)
2024	\$ (17,043)

**Actuarial Assumptions**

The total pension liability at December 31, 2020, 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

There were no changes in actuarial assumptions in 2019.

**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 discount rate disclosed in the preceding paragraph, 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	\$ 78,056	\$ 92,771	\$ 106,852

**CITY OF SCANDIA, MINNESOTA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020**

**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 2019 for Volunteer Firefighter Fund.

**Pension Plan Fiduciary Net Position**

Detailed information about the Volunteer Firefighter Fund's fiduciary net position as of December 31, 2019, is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the Internet at [www.mnpera.org](http://www.mnpera.org).

**CITY OF SCANDIA, MINNESOTA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020**

**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 2021 contract budget, expenditures anticipated under this agreement for 2021 are estimated at \$147,118.

**6.C.     SUBSEQUENT EVENTS**

**Construction Projects**

Subsequent to year-end and prior to issuance of these financial statements, the City approved a contract for the 2021 Street Improvement Project at an approximate cost of \$602,418.

## **REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF SCANDIA, MINNESOTA**  
**BUDGETARY COMPARISON SCHEDULE – GENERAL FUND**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**

	Budget Amounts- Original and Final	Actual Amounts Budgetary Basis	Variance with Budget Over (Under)
<b>REVENUES</b>			
<b>Taxes</b>			
Property Taxes	\$ 1,495,500	\$ 1,533,411	\$ 37,911
Franchise Taxes	11,500	5,104	(6,396)
Gravel Tax	10,000	20,468	10,468
<b>Total Taxes</b>	1,517,000	1,558,983	41,983
<b>Licenses and Permits</b>	133,900	151,164	17,264
<b>Intergovernmental Revenue</b>			
State Revenue			
Market Value Credit	10,000	13,008	3,008
Police and Fire Aid	35,300	37,484	2,184
Other State Grants and Aids	8,000	11,293	3,293
County Revenue			
Other County Grants and Aids	7,900	8,000	100
Local Revenue			
Other Local Grants	4,500	3,100	(1,400)
<b>Total Intergovernmental Revenue</b>	65,700	72,885	7,185
<b>Charges for Services</b>			
General Government	23,900	(1,323)	(25,223)
Police and Fire Contracts	36,500	36,484	(16)
Streets and Highways	3,300	2,546	(754)
Parks and Recreation	9,400	5,569	(3,831)
<b>Total Charges for Services</b>	73,100	43,276	(29,824)
<b>Fines and Forfeitures</b>	9,000	7,561	(1,439)
<b>Miscellaneous Revenue</b>			
Investment Earnings	5,000	11,463	6,463
Refunds and Reimbursements	-	720	720
Contributions and Donations	3,000	13,764	10,764
Other Miscellaneous	500	4,395	3,895
<b>Total Miscellaneous Revenue</b>	8,500	30,342	21,842
<b>TOTAL REVENUES</b>	1,807,200	1,864,211	57,011
<b>EXPENDITURES</b>			
<b>General Government</b>			
Mayor and Council	20,400	19,114	(1,286)
Administration and Finance	220,300	205,155	(15,145)
Other General Government	315,100	310,757	(4,343)
Capital Outlay	7,600	9,648	2,048
<b>Total General Government</b>	563,400	544,674	(18,726)



**CITY OF SCANDIA, MINNESOTA  
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2020**

	Budget Amounts- Original and Final	Actual Amounts Budgetary Basis	Variance with Budget Over (Under)
<b>Public Safety</b>			
Police			
Current	139,100	120,532	(18,568)
Fire			
Current	294,714	202,784	(91,930)
Capital Outlay	1,400	9,967	8,567
<b>Total Public Safety</b>	435,214	333,283	(101,931)
<b>Public Works</b>			
Street Maintenance and Storm Sewers	621,100	534,731	(86,369)
Snow and Ice Removal	41,000	17,500	(23,500)
Street Engineering	16,000	9,342	(6,658)
Street Lighting	12,600	6,927	(5,673)
Capital Outlay - Other	-	190	190
<b>Total Public Works</b>	690,700	568,690	(122,010)
<b>Culture and Recreation</b>			
Parks and Recreation			
Current	124,100	133,534	9,434
Capital Outlay	-	3,532	3,532
<b>Total Culture and Recreation</b>	124,100	137,066	12,966
<b>TOTAL EXPENDITURES</b>	1,813,414	1,583,713	(229,701)
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	(6,214)	280,498	286,712
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers			
From Other Funds	-	17,700	17,700
To Other Funds	(3,000)	(30,000)	(27,000)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	(3,000)	(12,300)	(9,300)
<b>NET CHANGE IN FUND BALANCES</b>	\$ (9,214)	268,198	\$ 277,412
<b>FUND BALANCES - BEGINNING</b>		1,267,024	
<b>FUND BALANCES - ENDING</b>		\$ 1,535,222	

**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
<b><i>General Employees Retirement Pension Plan</i></b>							
2020	0.0056%	\$ 335,746	\$ 10,402	\$ 346,148	\$ 403,027	85.9%	79.1%
2019	0.0056%	\$ 309,611	\$ 9,666	\$ 319,277	\$ 370,760	86.1%	80.2%
2018	0.0057%	\$ 316,213	\$ 10,395	\$ 326,608	\$ 380,371	85.9%	79.5%
2017	0.0053%	\$ 338,349	\$ 4,251	\$ 342,600	\$ 338,175	101.3%	75.9%
2016	0.0057%	\$ 462,812	\$ 6,071	\$ 468,883	\$ 357,680	131.1%	68.9%
2015	0.0059%	\$ 305,769	\$ -	\$ 305,769	\$ 342,106	89.4%	78.2%
<b><i>Public Employees Police and Fire Pension Plan</i></b>							
2020	0.0058%	\$ 76,450	\$ 1,790	\$ 78,240	\$ 20,323	385.0%	87.2%

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

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

For the Fiscal Year Ended December 31	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contribution	Contribution Deficiency (Excess)	City's Covered Payroll	Contributions as a Percentage of Covered Payroll
<b><i>General Employees Retirement Pension Plan</i></b>					
2020	\$ 32,939	\$ 32,939	\$ -	\$ 439,187	7.50%
2019	\$ 29,072	\$ 29,072	\$ -	\$ 387,627	7.50%
2018	\$ 27,150	\$ 27,150	\$ -	\$ 362,002	7.50%
2017	\$ 27,172	\$ 27,172	\$ -	\$ 362,292	7.50%
2016	\$ 24,941	\$ 24,941	\$ -	\$ 334,592	7.45%
2015	\$ 25,468	\$ 25,468	\$ -	\$ 348,155	7.32%
<b><i>Public Employees Police and Fire Pension Plan</i></b>					
2020	\$ 7,652	\$ 7,652	\$ -	\$ 43,232	17.70%
<b><i>Statewide Volunteer Firefighter Pension Plan</i></b>					
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,					
	2019	2018	2017	2016	2015	2014
<b>Changes in Total Pension Liability (TPL)</b>						
Balance at January 1st	\$ 490,428	\$ 545,327	\$ 617,019	\$ 654,741	\$ 636,294	\$ 629,967
Service Cost	31,774	25,342	28,912	24,777	23,343	22,874
Interest on the TPL	31,332	31,414	34,163	38,089	38,665	38,350
Actuarial Experience (Gains)/Losses	(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>\$ 659,574</u>	<u>\$ 490,428</u>	<u>\$ 545,327</u>	<u>\$ 617,019</u>	<u>\$ 654,741</u>	<u>\$ 636,294</u>
<b>Plan Fiduciary Net Position (PFNP)</b>						
Balance at January 1st	\$ 604,335	\$ 687,094	\$ 723,513	\$ 735,277	\$ 730,400	\$ 658,422
Fire State Aid	27,954	26,919	26,278	26,738	27,129	24,368
Fire Supplemental Aid	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>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	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>(789)</u>	<u>(879)</u>	<u>(970)</u>	<u>(774)</u>	<u>(804)</u>	<u>(750)</u>
Total Reductions	<u>(789)</u>	<u>(95,119)</u>	<u>(154,070)</u>	<u>(90,174)</u>	<u>(31,257)</u>	<u>(28,094)</u>
Balance at December 31st	<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>\$ (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)	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, 2020**

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

**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.

**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.

**CITY OF SCANDIA, MINNESOTA**  
**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION**  
**DECEMBER 31, 2020**

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

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 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 post-retirement 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 post-retirement 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 was changed from 7.90 percent to 7.50 percent.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, the inflation were decreased by 0.25 percent to 3.25 percent for payroll growth and 2.50 percent for inflation.

Changes in Plan Provisions

- There have been no changes since the prior valuation.

**CITY OF SCANDIA, MINNESOTA**  
**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION**  
**DECEMBER 31, 2020**

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

**2015 Changes**

Changes in Actuarial Assumptions

- The assumed post-retirement 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**

**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.

**NOTE 3 STATEWIDE VOLUNTEER FIREFIGHTER RETIREMENT PLAN**

**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.

**CITY OF SCANDIA, MINNESOTA**  
**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION**  
**DECEMBER 31, 2020**

**NOTE 3     STATEWIDE VOLUNTEER FIREFIGHTER RETIREMENT PLAN (Continued)**

**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, 2020**

	2013 Equipment Certificates	2015 Equipment Certificates	2017 Equipment Certificates	2018A G.O. Street Bonds	Total Debt Service
<b>ASSETS</b>					
Cash and Cash Equivalents	\$ 21,089	\$ 15,452	\$ -	\$ -	\$ 36,541
Property Taxes Receivable	796	499	401	3,756	5,452
Prepays	<u>2,640</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,640</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 24,525</u></u>	<u><u>\$ 15,951</u></u>	<u><u>\$ 401</u></u>	<u><u>\$ 3,756</u></u>	<u><u>\$ 44,633</u></u>
<b>LIABILITIES</b>					
Due to Other Funds	\$ -	\$ -	\$ 1,604	\$ 15,633	\$ 17,237
<b>FUND BALANCE</b>					
Nonspendable	2,640	-	-	-	2,640
Restricted	21,885	15,951	-	-	37,836
Unassigned	<u>-</u>	<u>-</u>	<u>(1,203)</u>	<u>(11,877)</u>	<u>(13,080)</u>
Total Fund Balance	<u>24,525</u>	<u>15,951</u>	<u>(1,203)</u>	<u>(11,877)</u>	<u>27,396</u>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<u><u>\$ 24,525</u></u>	<u><u>\$ 15,951</u></u>	<u><u>\$ 401</u></u>	<u><u>\$ 3,756</u></u>	<u><u>\$ 44,633</u></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, 2020**

	2013 Equipment Certificates	2015 Equipment Certificates	2017 Equipment Certificates	2018A G.O. Street Bonds	Total Debt Service
<b>REVENUES</b>					
Taxes	\$ 68,309	\$ 42,835	\$ 34,416	\$ 322,206	\$ 467,766
<b>EXPENDITURES</b>					
Debt Service:					
Principal	60,000	43,000	32,000	215,000	350,000
Interest and Other Charges	7,335	990	2,545	111,670	122,540
<b>TOTAL EXPENDITURES</b>	<u>67,335</u>	<u>43,990</u>	<u>34,545</u>	<u>326,670</u>	<u>472,540</u>
<b>NET CHANGE IN FUND BALANCE</b>	974	(1,155)	(129)	(4,464)	(4,774)
<b>FUND BALANCE - BEGINNING</b>	<u>23,551</u>	<u>17,106</u>	<u>(1,074)</u>	<u>(7,413)</u>	<u>32,170</u>
<b>FUND BALANCE - ENDING</b>	<u>\$ 24,525</u>	<u>\$ 15,951</u>	<u>\$ (1,203)</u>	<u>\$ (11,877)</u>	<u>\$ 27,396</u>

**CITY OF SCANDIA, MINNESOTA  
COMBINING BALANCE SHEET  
ALL NONMAJOR GOVERNMENTAL FUNDS  
DECEMBER 31, 2020**

	Special Revenue			Capital Project			
	Economic Development Authority Fund	Cable TV Fund	COVID Relief	Gateway Trail Expansion Fund	Park Capital Improvement Fund	Equipment Replacement Fund	Total Nonmajor Funds
<b>ASSETS</b>							
Cash and Cash Equivalents	\$ 26,953	\$ 20,116	\$ -	\$ 175	\$ 150,499	\$ 183,483	\$ 381,226
Property Taxes Receivable	55	-	-	-	328	328	711
Accounts Receivable	-	1,974	-	-	-	-	1,974
<b>TOTAL ASSETS</b>	<u>\$ 27,008</u>	<u>\$ 22,090</u>	<u>\$ -</u>	<u>\$ 175</u>	<u>\$ 150,827</u>	<u>\$ 183,811</u>	<u>\$ 383,911</u>
<b>LIABILITIES</b>							
Accounts Payable	\$ -	\$ -	\$ 1,275	\$ -	\$ -	\$ -	\$ 1,275
Due to Other Funds	-	-	1,415	-	-	-	1,415
Advances from Other Funds	-	-	-	-	11,000	-	11,000
Total Liabilities	-	-	2,690	-	11,000	-	13,690
<b>FUND BALANCES</b>							
Restricted	-	-	-	175	-	-	175
Committed	27,008	-	-	-	139,827	-	166,835
Assigned	-	22,090	-	-	-	183,811	205,901
Unassigned	-	-	(2,690)	-	-	-	(2,690)
Total Fund Balances	<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>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 27,008</u>	<u>\$ 22,090</u>	<u>\$ -</u>	<u>\$ 175</u>	<u>\$ 150,827</u>	<u>\$ 183,811</u>	<u>\$ 383,911</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, 2020**

	Special Revenue			Capital Project			
	Economic Development Authority Fund	Cable TV Fund	COVID Relief	Gateway Trail Expansion Fund	Park Capital Improvement Fund	Equipment Replacement Fund	Total Nonmajor Funds
<b>REVENUES</b>							
Taxes	\$ 4,419	\$ -	\$ -	\$ -	\$ 28,137	\$ 28,137	\$ 60,693
Franchise Taxes	-	20,331	-	-	-	-	20,331
Intergovernmental	-	-	311,080	-	9,380	-	320,460
Interest Income	265	126	-	-	1,614	1,887	3,892
Miscellaneous	-	-	-	-	802	13,500	14,302
<b>TOTAL REVENUES</b>	<u>4,684</u>	<u>20,457</u>	<u>311,080</u>	<u>-</u>	<u>39,933</u>	<u>43,524</u>	<u>419,678</u>
<b>EXPENDITURES</b>							
Current:							
General Government	-	3,237	150,864	-	-	-	154,101
Parks and Recreation	-	-	-	-	8,663	-	8,663
Economic Development	881	-	-	-	-	-	881
Capital Outlay	-	-	162,906	-	26,080	93,499	282,485
<b>TOTAL EXPENDITURES</b>	<u>881</u>	<u>3,237</u>	<u>313,770</u>	<u>-</u>	<u>34,743</u>	<u>93,499</u>	<u>446,130</u>
<b>NET CHANGE IN FUND BALANCES</b>	3,803	17,220	(2,690)	-	5,190	(49,975)	(26,452)
<b>FUND BALANCES - BEGINNING</b>	<u>23,205</u>	<u>4,870</u>	<u>-</u>	<u>175</u>	<u>134,637</u>	<u>233,786</u>	<u>396,673</u>
<b>FUND BALANCES - ENDING</b>	<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>

**CITY OF SCANDIA, MINNESOTA  
SCHEDULE OF INDEBTEDNESS  
FOR THE YEAR ENDED DECEMBER 31, 2020  
(UNAUDITED)**

	<u>Issue Dates</u>	<u>Interest Rates</u>	<u>Maturity Dates</u>	<u>Initial Authorized Issue</u>	<u>Outstanding Balance 01/01/20</u>	<u>Issued</u>	<u>Paid</u>	<u>Outstanding Balance 12/31/20</u>	<u>Principal Due Within One Year</u>
<b>GOVERNMENTAL INDEBTEDNESS</b>									
2013 Certificates of Indebtedness	7/1/2013	0.80-3.10%	7/1/2023	\$ 570,000	\$ 240,000	\$ -	\$ 60,000	\$ 180,000	\$ 60,000
2015 Certificates of Indebtedness	7/1/2015	1.40-2.30%	7/1/2020	215,000	43,000	-	43,000	-	-
2017 Certificates of Indebtedness	8/1/2017	2.35-2.75%	8/1/2022	160,000	96,000	-	32,000	64,000	32,000
G.O. Street Reconstruction Bonds, Series 2018A	5/15/2018	3.00-3.13%	12/15/2033	<u>3,835,000</u>	<u>3,680,000</u>	<u>-</u>	<u>215,000</u>	<u>3,465,000</u>	<u>220,000</u>
<b>TOTAL INDEBTEDNESS</b>				<u>\$ 4,780,000</u>	<u>\$ 4,059,000</u>	<u>\$ -</u>	<u>\$ 350,000</u>	<u>\$ 3,709,000</u>	<u>\$ 312,000</u>

## **OTHER REQUIRED REPORTS**

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

Honorable Mayor and City Council  
City of Scandia, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Scandia, Minnesota (the City) as of and for the year ended December 31, 2020, 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 18, 2021.

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

### **Minnesota Legal Compliance**

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

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

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



**SCHLENNER WENNER & CO.**

St. Cloud, Minnesota

May 18, 2021

**CITY OF SCANDIA, MINNESOTA  
SCHEDULE OF FINDINGS AND RESPONSES  
DECEMBER 31, 2020**

**FINANCIAL STATEMENT FINDINGS**

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

<i>Condition:</i>	The City has limited segregation of accounting duties.
<i>Criteria:</i>	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.
<i>Cause:</i>	There are a limited number of employees.
<i>Effect:</i>	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.
<i>Recommendation:</i>	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.
<i>Views of Responsible Officials And Planned Corrective Actions:</i>	Management agrees with the recommendation. See corresponding Corrective Action Plan.

**Finding 2019-001    Material Audit Adjustments**

<i>Condition:</i>	Audit adjustments were required to correct material misstatements identified in the trial balance presented for the audit.
<i>Criteria:</i>	The City is required to report accurate financial information, in accordance with accounting principles generally accepted in the United States of America.
<i>Cause:</i>	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.
<i>Effect:</i>	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.
<i>Recommendation:</i>	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.
<i>Views of Responsible Officials And Planned Corrective Actions:</i>	Management agrees with the recommendation. See corresponding Corrective Action Plan.

**CITY OF SCANDIA, MINNESOTA  
SCHEDULE OF FINDINGS AND RESPONSES  
DECEMBER 31, 2020**

**FINANCIAL STATEMENT FINDINGS (Continued)**

**Finding 2019-002     Financial Statement Preparation**

<i>Condition:</i>	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.
<i>Criteria:</i>	The City is required to report accurate financial information.
<i>Cause:</i>	The City's staff does not possess the expertise to prepare financial statements internally. This is not unusual for a City of your size.
<i>Effect:</i>	The inability to internally prepare the City's financial statements can result in undetected errors in financial reporting.
<i>Recommendation:</i>	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.
<i>Views of Responsible Officials And Planned Corrective Actions:</i>	Management agrees with the recommendation. See corresponding Corrective Action Plan.

**CITY OF SCANDIA, MINNESOTA  
CORRECTIVE ACTION PLANS  
DECEMBER 31, 2020**

**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, 2020**

**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.