

**CITY OF VERGAS
VERGAS, MINNESOTA**

YEAR ENDED DECEMBER 31, 2020



Hoffman, Philipp, & Martell, PLLC

**CITY OF VERGAS
VERGAS, MINNESOTA**

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VERGAS, MINNESOTA**

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INTRODUCTORY SECTION

**CITY OF VERGAS
VERGAS, MINNESOTA**

**ORGANIZATION SCHEDULE
DECEMBER 31, 2020**

<u>City Council</u>	<u>Position</u>	<u>Term Expires</u>
Elected		
Dean Haarstick ¹	Mayor	December 31, 2020
Julie Bruhn ²	Councilmember	December 31, 2022
Logan Dahlgren	Councilmember	December 31, 2022
Natalie Fischer	Councilmember	December 31, 2024
Paul Pinke	Councilmember	December 31, 2022
Appointed		
Julie Lammers	Clerk-Treasurer	Indefinite

¹ Replaced by newly elected Mayor Julie Bruhn effective January 1, 2021. Term expires December 31, 2022.

² Replaced by newly elected Bruce Albright effective January 1, 2021. Term expires December 31, 2024.

FINANCIAL SECTION

Colleen Hoffman, Director
Crystelle Philipp, CPA
Marit Martell, CPA



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INDEPENDENT AUDITOR'S REPORT

City Council
City of Vergas

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of the City of Vergas, Minnesota, 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 over financial reporting 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; 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 of 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 over financial reporting 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 over financial reporting. 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.

Basis for Qualified Opinion on Governmental Activities

Management has not adopted the provisions of Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* for the Fire Relief Association. Accounting principles generally accepted in the United States of America require that GASB Statement No. 68 be adopted for governmental activities, including Fire Relief Associations. The amount by which this departure would affect the assets, net position, and revenues of the governmental activities have not been determined.

Qualified Opinion

In our opinion, except for the effects of the matter described in the “Basis for Qualified Opinion on Governmental Activities Fund” paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Vergas, Minnesota, as of December 31, 2020, and the 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.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of the City of Vergas, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management’s Discussion and Analysis and the required supplementary information, as listed in the table of contents, 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Vergas’s basic financial statements. The introductory section and the other schedules section, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The introductory and other schedules sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

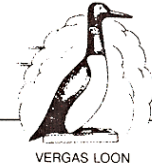
Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 29, 2021, on our consideration of the City of Vergas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

A handwritten signature in blue ink that reads "Hoffman, Philipp, & Martell". The signature is written in a cursive, flowing style.

Hoffman, Philipp, & Martell, PLLC
June 29, 2021

City of Vergas



Minnesota's State Bird

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

The management of the City of Vergas offers readers of the City's Financial Statements this narrative overview and analysis of the financial activities of the City of Vergas for the fiscal year ended December 31, 2020. The Management's Discussion and Analysis provides comparisons with the previous year and is designed to focus on the current year's activities, resulting changes, and currently known facts, and should be read in conjunction with the City's basic financial statements that follow this section.

FINANCIAL HIGHLIGHTS

The total net position of governmental activities is \$1,937,739, of which \$872,732 is the net investment in capital assets, \$156,328 is restricted for debt service, and \$908,769 is unrestricted. The total net position of governmental activities increased by \$454,715 for the year ended December 31, 2020. This is attributed primarily to State grants received for the Long Lake Trail Project.

The total net position of business-type activities is \$1,510,545, of which \$1,205,508 is the net investment in capital assets, and \$305,037 is unrestricted. The total net position of business-type activities increased by \$45,600 in 2020, primarily as a result of positive operating income in the Liquor Enterprise Fund.

At the close of 2020, the City's governmental funds reported combined ending fund balances of \$444,479, a decrease of \$39,406 over the prior year. Of the total fund balance amount, \$263,192 is legally or contractually restricted, \$104,858 is formally committed for specific purposes, and \$76,429 is noted as the unassigned fund balance in the General Fund. Maintaining an adequate fund balance is necessary to provide City services throughout the year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements, which are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances. These statements include all assets, deferred outflows of resources, liabilities, and deferred inflows of resources using the accrual basis of accounting, which is similar to the accounting used by most private-sector businesses. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

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

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

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 general government, public safety, highways and streets, sanitation, culture and recreation, and economic development. Property taxes and intergovernmental revenues finance most of these activities.
- **Business-type activities**—The City charges fees to cover the costs of certain services it provides. Included here are the operations of the liquor store and the utilities – sewer and water.

The government-wide financial statements can be found as Exhibits 1 and 2 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Vergas, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's short-term financing decisions. Both the Balance Sheet – Governmental Funds and the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds provide a reconciliation to facilitate the comparison between governmental funds and governmental activities.

The City reports three governmental fund types: General, Special Revenue, and Debt Service. Information is presented separately in the Governmental Funds Balance Sheet and in the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances for the General Fund, the 2006 Street Project Debt Service Fund, and the 2019 Street Project Debt Service Fund, all of which are considered to be major funds. Data for the Nonmajor Vergas EDA Special Revenue Fund is also presented with the major funds.

The City of Vergas adopts an annual budget for its General Fund. A budgetary comparison schedule has been provided for this fund to demonstrate compliance with its budget.

Proprietary Funds The City of Vergas maintains three proprietary funds. 1) The Liquor Enterprise Fund is used to account for the City's liquor store. Financing is provided through the liquor store's sale of off-sale liquor. 2) The Sewer Enterprise Fund is used to account for the operations of the City's sewer system. Financing is provided by charges to residents for services. 3) The Water Enterprise Fund is used to account for the operations of the City's water system. Financing is provided by charges to residents for services. Proprietary funds provide the same type of information as the government-wide financial statements, and are included in the Statement of Net Position and the Statement of Activities as business-type activities. All of the enterprise funds are considered to be major funds.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found beginning on page 25 of this report.

Other information—In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. The City also provides other information including a schedule of intergovernmental revenue.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Over time, net position serves as a useful indicator of the City's financial position. The City's assets exceeded liabilities by \$3,448,284 at the close of 2020. The largest portion of the City's net position (approximately 60 percent) reflects its net investment in capital assets (i.e., land, construction in progress, infrastructure, buildings and improvements, and machinery and equipment). It should be noted that this amount is not available for future spending. Approximately 5 percent of the City's net position is restricted for debt service and 35 percent of the City's net position is unrestricted. The unrestricted net position amount of \$1,213,716 as of December 31, 2020, may be used to meet the City's ongoing obligations to citizens.

The City's overall financial position increased from last year. Total assets increased by \$446,499, and total liabilities decreased by \$20,184 from the prior year. Deferred outflows related to pensions increased by \$10,143, and deferred inflows of resources related to pensions decreased by \$23,489, resulting in an increased net position of \$500,315 from the prior year. This increase was primarily due to grant funding and donations received for the Vergas Trails Project.

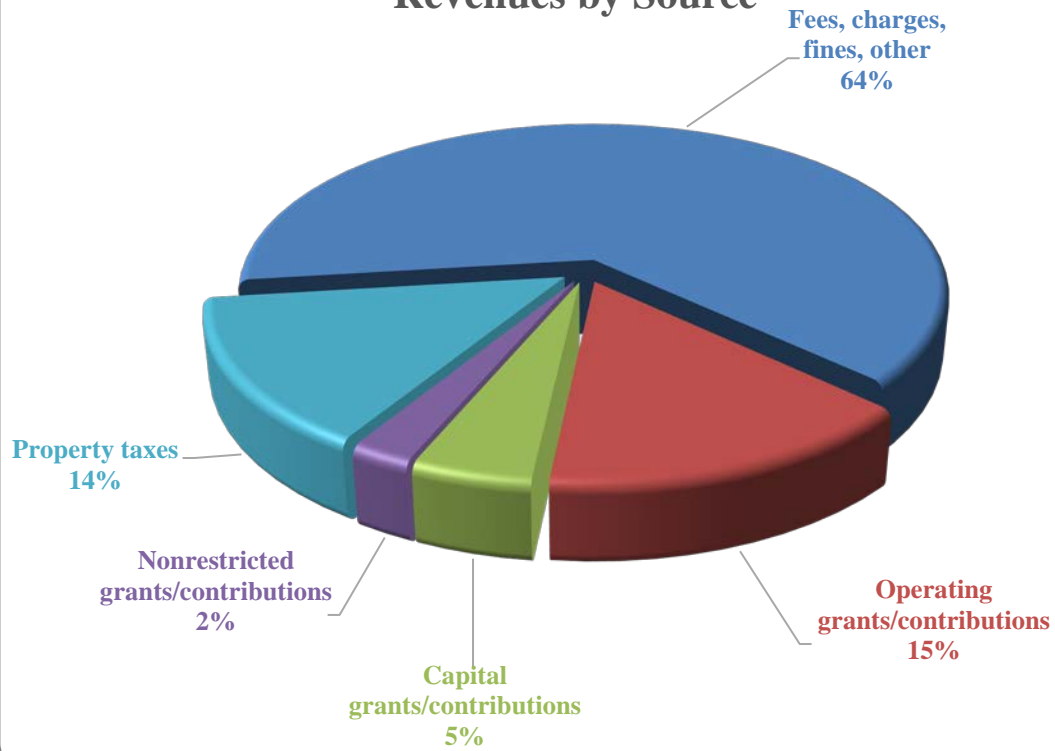
NET POSITION

	Governmental Activities		Business-Type Activities		Total	
	2020	2019	2020	2019	2020	2019
Current and other assets	\$ 1,050,735	\$ 1,114,768	\$ 457,719	\$ 469,638	\$ 1,508,454	\$ 1,584,406
Capital assets	2,146,203	1,669,340	1,285,507	1,239,919	3,431,710	2,909,259
Total assets	\$ 3,196,938	\$ 2,784,108	\$ 1,743,226	\$ 1,709,557	\$ 4,940,164	\$ 4,493,665
Deferred outflows - pensions	\$ 10,261	\$ 7,016	\$ 21,806	\$ 14,908	\$ 32,067	\$ 21,924
Other liabilities	\$ 10,700	\$ 7,976	\$ 47,554	\$ 17,973	\$ 58,254	\$ 25,949
Long-term liabilities outstanding	1,255,699	1,289,546	200,428	219,070	1,456,127	1,508,616
Total liabilities	\$ 1,266,399	\$ 1,297,522	\$ 247,982	\$ 237,043	\$ 1,514,381	\$ 1,534,565
Deferred inflows - pensions	\$ 3,061	\$ 10,578	\$ 6,505	\$ 22,477	\$ 9,566	\$ 33,055
Net position						
Net investment in capital assets	\$ 872,732	\$ 406,653	\$ 1,205,508	\$ 1,119,919	\$ 2,078,240	\$ 1,526,572
Restricted	156,328	108,530	-	-	156,328	108,530
Unrestricted	908,679	967,841	305,037	345,026	1,213,716	1,312,867
Total net position	\$ 1,937,739	\$ 1,483,024	\$ 1,510,545	\$ 1,464,945	\$ 3,448,284	\$ 2,947,969

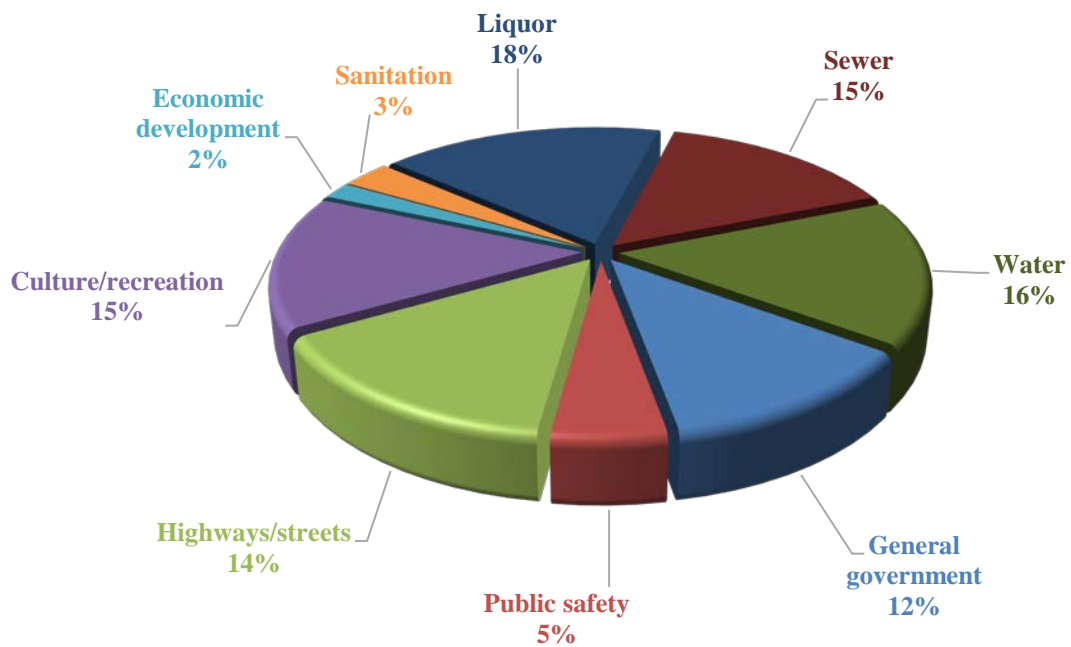
CHANGES IN NET POSITION

	Governmental Activities		Business-Type Activities		Total	
	2020	2019	2020	2019	2020	2019
Revenues						
Program Revenues						
Fees, charges, fines and other	\$ 189,064	\$ 77,616	\$ 932,460	\$ 776,911	\$ 1,121,524	\$ 854,527
Operating grants and contributions	258,220	46,030	2,214	10,206	260,434	56,236
Capital grants and contributions	82,224	634,389	-	-	82,224	634,389
General Revenues and Transfers						
Property taxes	249,477	210,375	-	-	249,477	210,375
Grants and contributions not restricted to specific programs	42,212	35,904	-	-	42,212	35,904
Investment earnings	377	808	1,472	1,313	1,849	2,121
Insurance dividends	2,946	1,216	2,723	2,509	5,669	3,725
Transfers	24,797	40,000	(24,797)	(40,000)	-	-
Total revenues	\$ 849,317	\$ 1,046,338	\$ 914,072	\$ 750,939	\$ 1,763,389	\$ 1,797,277
Expenses						
General government	\$ 83,837	\$ 77,918	\$ -	\$ -	\$ 83,837	\$ 77,918
Public safety	34,842	83,148	-	-	34,842	83,148
Highways and streets	100,675	109,223	-	-	100,675	109,223
Sanitation	21,107	19,004	-	-	21,107	19,004
Culture and recreation	102,107	111,833	-	-	102,107	111,833
Economic development	12,702	10,314	-	-	12,702	10,314
Interest	39,332	11,379	-	-	39,332	11,379
Liquor	-	-	654,078	555,087	654,078	555,087
Sewer	-	-	103,184	95,300	103,184	95,300
Water	-	-	111,210	103,673	111,210	103,673
Total expenses	\$ 394,602	\$ 422,819	\$ 868,472	\$ 754,060	\$ 1,263,074	\$ 1,176,879
Increase (decrease) in net position	\$ 454,715	\$ 623,519	\$ 45,600	\$ (3,121)	\$ 500,315	\$ 620,398
Net position, January 1, as previously reported	\$ 1,483,024	\$ 859,505	\$ 1,464,945	\$ 1,493,106	\$ 2,947,969	\$ 2,352,611
Prior period adjustment	-	-	-	(25,040)	-	(25,040)
Net position, January 1, as restated	\$ 1,483,024	\$ 859,505	\$ 1,464,945	\$ 1,468,066	\$ 2,947,969	\$ 2,327,571
Net position, December 31	\$ 1,937,739	\$ 1,483,024	\$ 1,510,545	\$ 1,464,945	\$ 3,448,284	\$ 2,947,969

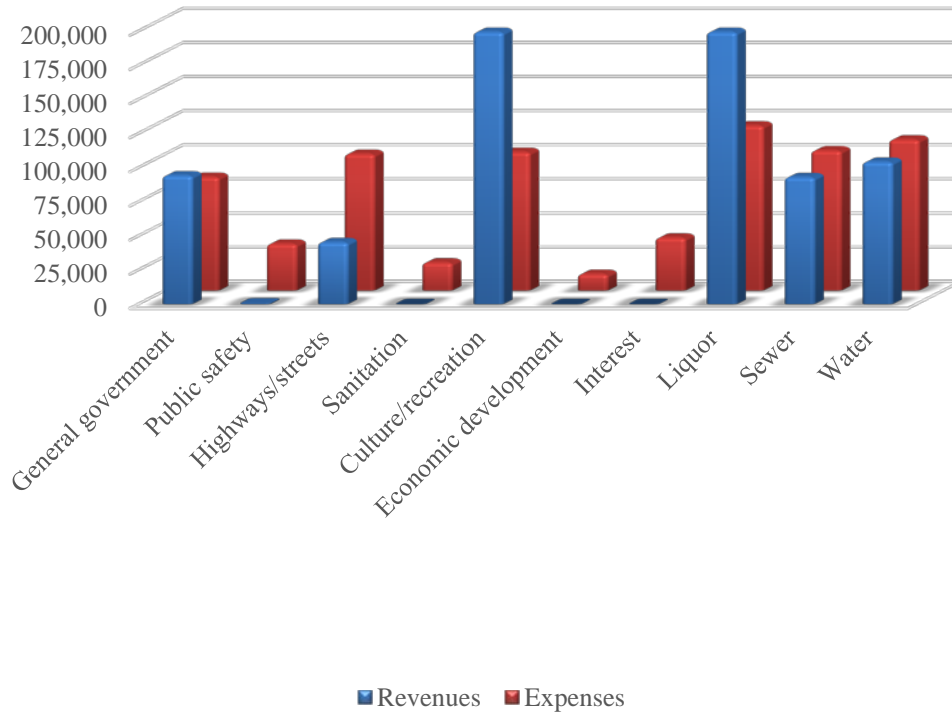
Revenues by Source



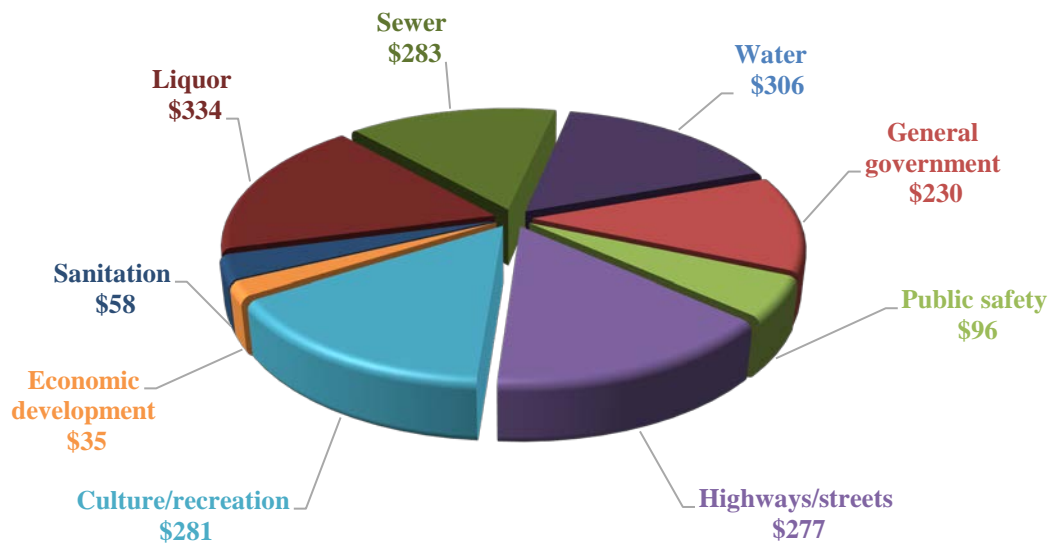
Expenses by Function



Program Revenues & Expenditures



Expenditures Per Capita 364 Population as of 2020



FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements, with a focus on short-term inflows, outflows, and balances of spendable resources. In particular, unrestricted fund balance may serve as a useful measure of the City's net resources available for spending at the end of the fiscal year.

Governmental Funds

At the end of 2020, the City's governmental funds reported combined ending fund balances of \$444,479. 59 constitutes the restricted fund balance, 24 percent constitutes formally committed fund balance, and 17 percent constitutes unassigned fund balance.

The General Fund is the operating fund of the City. At the end of the current fiscal year, the General Fund's total fund balance was \$179,917. The General Fund's committed fund balance was \$103,488 and unassigned fund balance was \$76,429. The General Fund has no restricted fund balance. As a measure of the General Fund's liquidity, it is useful to compare total fund balance to total fund expenditures for 2020. Total fund balance represents 21 percent of total General Fund expenditures.

In 2020, the fund balance amount in the General Fund decreased by \$192,366, primarily as a result of the transfer out of the remaining bond proceeds not used for the 2019 Street Project into the Debt Service Fund.

The fund balance of the 2006 Street Project Debt Service Fund decreased by \$3,735 from the prior year, primarily as a result of payment of debt.

The fund balance of the 2019 Street Project Debt Service Fund increased by \$158,397, primarily as a result of the transfer in of the remaining bond proceeds not used for construction of the 2019 Street Project in the General Fund.

The fund balance of the nonmajor Vergas Economic Development Authority (EDA) Special Revenue Fund decreased by \$1,702, primarily as a result of engineering expenses for a housing study.

Proprietary Fund

The Liquor Enterprise Fund reported an operating income in 2020 of \$82,253, resulting from an unusually busy year.

In 2020, the Sewer Enterprise Fund reported an operating loss of \$7,033, and the Water Enterprise Fund reported an operating loss of \$5,037, due to depreciation expense.

GENERAL FUND BUDGETARY HIGHLIGHTS

Actual revenues were more than overall final budgeted revenues by \$386,46, with the largest positive variances in intergovernmental and miscellaneous. Actual expenditures were more than overall final budgeted expenditures by \$477,208, primarily as a result of the unbudgeted Vergas Trail Project.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

The City's investment in capital assets for its governmental and business-type activities as of December 31, 2020, amounted to \$3,431,710 (net of accumulated depreciation). The total increase in the City's investment in capital assets for the current fiscal year was approximately 15 percent. This increase was primarily due to the addition of infrastructure for the Vergas Trail Project.

	Governmental Activities		Business-Type Activities		Total	
	2020	2019	2020	2019	2020	2019
Land	\$ 94,238	\$ 94,238	\$ -	\$ -	\$ 94,238	\$ 94,238
Construction in progress	55,346	-	-	-	55,346	-
Infrastructure	1,843,301	1,412,285	917,915	890,224	2,761,216	2,302,509
Buildings and improvements	40,042	43,002	334,308	349,695	374,350	392,697
Machinery and equipment	113,276	119,815	33,284	-	146,560	119,815
Total capital assets	<u>\$ 2,146,203</u>	<u>\$ 1,669,340</u>	<u>\$ 1,285,507</u>	<u>\$ 1,239,919</u>	<u>\$ 3,431,710</u>	<u>\$ 2,909,259</u>

Additional information on the City's capital assets can be found in the notes to the financial statements.

Long-Term Debt

At the end of the current fiscal year, the City had total debt outstanding of \$1,257,175 which is backed by the full faith and credit of the government.

	Governmental Activities		Business-Type Activities		Total	
	2020	2019	2020	2019	2020	2019
General Obligation Improvement Refunding Bonds of 2015	\$ 198,000	\$ 225,000	\$ -	\$ -	\$ 198,000	\$ 225,000
General Obligation Improvement Bonds, Series 2019A	985,000	985,000	-	-	985,000	985,000
General Obligation Water and Sewer Revenue Refunding Bonds, Series 2009, net of bond discount	-	-	39,050	121,425	39,050	121,425
Capital Equipment Notes of 2017	35,125	52,687	-	-	35,125	52,687
	<u>\$ 1,218,125</u>	<u>\$ 1,262,687</u>	<u>\$ 39,050</u>	<u>\$ 121,425</u>	<u>\$ 1,257,175</u>	<u>\$ 1,384,112</u>

Minnesota Statutes limit the amount of debt that the City may have to three percent of its total market value, excluding revenue bonds. At the end of 2020, overall debt of the City is below the three percent debt limit.

Additional information on the City's long-term debt can be found in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

- The City depends on financial resources flowing from, or associated with, both the Federal Government and the State of Minnesota. Because of this dependency, the City is subject to changes in specific flows of intergovernmental revenues based on modifications to Federal and State laws and Federal and State appropriations. It is also subject to changes in investment earnings and asset values associated with U.S. Treasury Securities because of actions by foreign governments and other holders of publicly held U.S. Treasury Securities.

- For 2021, the most significant challenge will be adjusting to the impacts of the worldwide Coronavirus pandemic. The total extent of the impact on the City, both financially and operationally, are still uncertain at this time.
- Specific unemployment statistics for the City of Vergas are not available. However, according to the Minnesota Department of Employment & Economic Development, the unemployment rate for Otter Tail County was 4.9 percent as of December 31, 2020. This is lower than the statewide rate of 6.5 percent and lower than the national average rate of 6.7 percent.
- The 2020 population of Vergas according to the League of Minnesota Cities was 364, an increase of 33 since the 2010 census of 331.
- On December 8, 2020, the City of Vergas set its 2021 revenue and expenditure budgets.

REQUESTS FOR INFORMATION

This annual financial report is designed to provide a general overview of the City of Vergas for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Vergas Clerk-Treasurer, City Hall, P.O. Box 32, Vergas, Minnesota 56587.

BASIC FINANCIAL STATEMENTS

**CITY OF VERGAS
VERGAS, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET POSITION
DECEMBER 31, 2020**

	Governmental Activities	Business-type Activities	Total
<u>Assets</u>			
Cash and pooled investments	\$ 285,252	\$ 63,848	\$ 349,100
Investments	113,409	134,794	248,203
Taxes receivable			
Current	887	-	887
Prior	6,475	-	6,475
Special assessments receivable			
Current	541	375	916
Prior	24,999	10	25,009
Accounts receivable	34	5,219	5,253
Due from other governments	45,735	-	45,735
Internal balances	9,321	(9,321)	-
Inventory	-	238,667	238,667
Special assessments receivable - noncurrent	564,082	24,127	588,209
Capital assets			
Non-depreciable	149,584	-	149,584
Depreciable - net of accumulated depreciation	1,996,619	1,285,507	3,282,126
Total Assets	\$ 3,196,938	\$ 1,743,226	\$ 4,940,164
<u>Deferred Outflows of Resources</u>			
Related to pensions	\$ 10,261	\$ 21,806	\$ 32,067
<u>Liabilities</u>			
Accounts payable	\$ 6,340	\$ 37,804	\$ 44,144
Salaries payable	4,126	4,579	8,705
Due to other governments	234	5,171	5,405
Long-term liabilities			
Due within one year	102,416	41,119	143,535
Due in more than one year	1,097,646	41,078	1,138,724
Net pension liability	55,637	118,231	173,868
Total Liabilities	\$ 1,266,399	\$ 247,982	\$ 1,514,381
<u>Deferred Inflows of Resources</u>			
Related to pensions	\$ 3,061	\$ 6,505	\$ 9,566
<u>Net Position</u>			
Net investment in capital assets	\$ 872,732	\$ 1,205,508	\$ 2,078,240
Amounts restricted for debt service	156,328	-	156,328
Unrestricted amounts	908,679	305,037	1,213,716
Total Net Position	\$ 1,937,739	\$ 1,510,545	\$ 3,448,284

**CITY OF VERGAS
VERGAS, MINNESOTA**

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

		Program Revenues	
		Fees, Charges, Fines and Other	Operating Grants and Contributions
	Expenses		
<u>Functions/Programs</u>			
Governmental activities			
General government	\$ 83,837	\$ 60,852	\$ 6,615
Public safety	34,842	-	900
Highways and streets	100,675	-	-
Sanitation	21,107	-	-
Culture and recreation	102,107	128,212	250,705
Economic development	12,702	-	-
Interest	39,332	-	-
Total governmental activities	\$ 394,602	\$ 189,064	\$ 258,220
Business-type activities			
Liquor	\$ 654,078	\$ 736,331	\$ -
Sewer	103,184	92,434	1,106
Water	111,210	103,695	1,108
Total business-type activities	\$ 868,472	\$ 932,460	\$ 2,214
Total	\$ 1,263,074	\$ 1,121,524	\$ 260,434

General revenues and transfers

Property taxes
Grants and contributions not restricted to specific programs
Investment earnings
Insurance dividends
Transfers

Total general revenues and transfers

Change in Net Position

Net Position - January 1

Net Position - December 31

EXHIBIT 2

Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position		
	Governmental Activities	Business-type Activities	Total
\$ 27,349	\$ 10,979	\$ -	\$ 10,979
-	(33,942)	-	(33,942)
45,916	(54,759)	-	(54,759)
-	(21,107)	-	(21,107)
8,959	285,769	-	285,769
-	(12,702)	-	(12,702)
-	(39,332)	-	(39,332)
\$ 82,224	\$ 134,906	\$ -	\$ 134,906
\$ -	\$ -	\$ 82,253	\$ 82,253
-	-	(9,644)	(9,644)
-	-	(6,407)	(6,407)
\$ -	\$ -	\$ 66,202	\$ 66,202
\$ 82,224	\$ 134,906	\$ 66,202	\$ 201,108
	\$ 249,477	\$ -	\$ 249,477
	42,212	-	42,212
	377	1,472	1,849
	2,946	2,723	5,669
	24,797	(24,797)	-
	\$ 319,809	\$ (20,602)	\$ 299,207
	\$ 454,715	\$ 45,600	\$ 500,315
	1,483,024	1,464,945	2,947,969
	\$ 1,937,739	\$ 1,510,545	\$ 3,448,284

**CITY OF VERGAS
VERGAS, MINNESOTA**

EXHIBIT 3

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2020**

	General Fund	2006 Street Project Debt Service	2019 Street Project Debt Service	Nonmajor Vergas EDA Special Revenue	Total Governmental Funds
<u>Assets</u>					
Cash and pooled investments	\$ 60,981	\$ 58,612	\$ 164,289	\$ 1,370	\$ 285,252
Investments	103,488	9,921	-	-	113,409
Taxes receivable					
Current	832	55	-	-	887
Prior	6,064	411	-	-	6,475
Special assessments receivable					
Current	-	4	537	-	541
Prior	-	1,083	23,916	-	24,999
Accounts receivable	34	-	-	-	34
Due from other funds	-	29,774	-	-	29,774
Due from other governments	45,735	-	-	-	45,735
Special assessments receivable - noncurrent	-	45,818	518,264	-	564,082
Total Assets	\$ 217,134	\$ 145,678	\$ 707,006	\$ 1,370	\$ 1,071,188
<u>Liabilities, Deferred Inflows of Resources and Fund Balances</u>					
Liabilities					
Accounts payable	\$ 6,340	\$ -	\$ -	\$ -	\$ 6,340
Salaries payable	4,126	-	-	-	4,126
Due to other funds	20,453	-	-	-	20,453
Due to other governments	234	-	-	-	234
Total Liabilities	\$ 31,153	\$ -	\$ -	\$ -	\$ 31,153
Deferred Inflows of Resources					
Taxes	\$ 6,064	\$ 411	\$ -	\$ -	\$ 6,475
Special assessments	-	46,901	542,180	-	589,081
Total Deferred Inflows of Resources	\$ 6,064	\$ 47,312	\$ 542,180	\$ -	\$ 595,556
Fund Balances					
Restricted for debt service	\$ -	\$ 98,366	\$ 164,826	\$ -	\$ 263,192
Committed to					
City shop	3,040	-	-	-	3,040
Easement	5,211	-	-	-	5,211
Economic development	-	-	-	1,370	1,370
Event Center	27,422	-	-	-	27,422
Parks	13,207	-	-	-	13,207
Recreation programs	10,454	-	-	-	10,454
Sand seal	23,845	-	-	-	23,845
Sidewalk improvements	11,851	-	-	-	11,851
Street improvements	8,458	-	-	-	8,458
Unassigned	76,429	-	-	-	76,429
Total Fund Balances	\$ 179,917	\$ 98,366	\$ 164,826	\$ 1,370	\$ 444,479
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 217,134	\$ 145,678	\$ 707,006	\$ 1,370	\$ 1,071,188

**CITY OF VERGAS
VERGAS, MINNESOTA**

EXHIBIT 4

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

Fund balances - total governmental funds (Exhibit 3)	\$	444,479
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Amounts reported for governmental activities in the
Statement of Net Position are different because:

Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		2,146,203
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Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds.		595,556
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Long-term liabilities are not due and payable in the current period and,
therefore, are not reported in the governmental funds.

Compensated absences payable	\$ (979)		
Capital equipment notes payable	(35,125)		
General obligation bonds payable	(1,183,000)		
Unamortized discount on bonds payable	<u>19,042</u>		(1,200,062)

Net pension asset, net pension liability and related inflows/outflows of resources
represent the allocation of the pension obligations of the statewide plans to the City.
Such balances are not reported in the governmental funds:

Net pension liability	\$ (55,637)		
Deferred outflows related to pensions	10,261		
Deferred inflows related to pensions	<u>(3,061)</u>		<u>(48,437)</u>

Net position of governmental activities (Exhibit 1)	\$	<u>1,937,739</u>
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**CITY OF VERGAS
VERGAS, MINNESOTA**

EXHIBIT 5

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2020**

	General Fund	2006 Street Project Debt Service	2019 Street Project Debt Service	Nonmajor Vergas EDA Special Revenue	Total Governmental Funds
Revenues					
Property taxes	\$ 229,464	\$ 16,039	\$ -	\$ -	\$ 245,503
Special assessments	-	12,191	65,050	-	77,241
Licenses and permits	26,266	-	-	-	26,266
Intergovernmental	316,166	-	-	5,000	321,166
Charges for services	676	-	-	-	676
Gifts and contributions	15,574	-	-	-	15,574
Investment earnings	236	141	-	-	377
Miscellaneous	164,923	-	-	-	164,923
Total Revenues	\$ 753,305	\$ 28,371	\$ 65,050	\$ 5,000	\$ 851,726
Expenditures					
Current					
General government	\$ 82,832	\$ -	\$ -	\$ -	\$ 82,832
Public safety	33,885	-	-	-	33,885
Highways and streets	66,903	-	-	-	66,903
Sanitation	11,834	-	-	-	11,834
Culture and recreation	94,867	-	-	-	94,867
Economic development	-	-	-	12,702	12,702
Total Current	\$ 290,321	\$ -	\$ -	\$ 12,702	\$ 303,023
Debt service					
Principal retirement	\$ 17,562	\$ 27,000	\$ -	\$ -	\$ 44,562
Interest	-	5,106	33,274	-	38,380
Total Debt service	\$ 17,562	\$ 32,106	\$ 33,274	\$ -	\$ 82,942
Capital outlay					
General Government	\$ 55,346	\$ -	\$ -	\$ -	\$ 55,346
Highways and streets	26,664	-	-	-	26,664
Culture and recreation	447,954	-	-	-	447,954
Total Capital outlay	\$ 529,964	\$ -	\$ -	\$ -	\$ 529,964
Total Expenditures	\$ 837,847	\$ 32,106	\$ 33,274	\$ 12,702	\$ 915,929
Excess of Revenues Over (Under) Expenditures	\$ (84,542)	\$ (3,735)	\$ 31,776	\$ (7,702)	\$ (64,203)
Other Financing Sources (Uses)					
Transfers in	\$ 30,000	\$ -	\$ 126,621	\$ 6,000	\$ 162,621
Transfers out	(137,824)	-	-	-	(137,824)
Total Other Financing Sources (Uses)	\$ (107,824)	\$ -	\$ 126,621	\$ 6,000	\$ 24,797
Net Change in Fund Balance	\$ (192,366)	\$ (3,735)	\$ 158,397	\$ (1,702)	\$ (39,406)
Fund Balance - January 1	372,283	102,101	6,429	3,072	483,885
Fund Balance - December 31	\$ 179,917	\$ 98,366	\$ 164,826	\$ 1,370	\$ 444,479

**CITY OF VERGAS
VERGAS, MINNESOTA**

EXHIBIT 6

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2020**

Net change in fund balances - total governmental funds (Exhibit 5)	\$	(39,406)
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Amounts reported for governmental activities in the
Statement of Activities are different because:

Governmental funds report capital outlay as expenditures. However, in
the Statement of Activities, the cost of those assets is allocated over
their estimated useful lives and reported as depreciation expense.

Purchase of capital assets	\$ 529,964	
Current year depreciation	(53,101)	476,863

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

Change in		
Taxes receivable	\$ 3,974	
Special assessments receivable	(31,325)	(27,351)

The issuance of long-term debt provides current financial resources to governmental
funds, but increases long-term liabilities in the Statement of Net Position, while the
repayment of the principal of long-term debt consumes the current financial resources
of governmental funds. Neither transaction has any effect on net position.

Principal repayment		44,562
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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 governmental funds.

Change in compensated absences payable	\$ (125)	
Amortization of bond discount	(952)	
Deferred outflows of resources related to pensions	3,245	
Net pension liability	(9,636)	
Deferred inflows of resources related to pensions	7,515	47

Change in net position of governmental activities (Exhibit 2)	\$	<u>454,715</u>
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**CITY OF VERGAS
VERGAS, MINNESOTA**

EXHIBIT 7

**STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2020**

	Liquor Enterprise	Sewer Enterprise	Water Enterprise	Total
<u>Assets</u>				
Current Assets				
Cash and pooled investments	\$ 54,299	\$ -	\$ 9,549	\$ 63,848
Investments	71,077	48,893	14,824	134,794
Special assessments receivable				
Current	-	187	188	375
Prior	-	5	5	10
Accounts receivable	-	1,873	3,346	5,219
Due from other funds	-	-	73,439	73,439
Inventory	238,667	-	-	238,667
Total Current Assets	\$ 364,043	\$ 50,958	\$ 101,351	\$ 516,352
Noncurrent Assets				
Special assessments receivable - noncurrent	\$ -	\$ 12,063	\$ 12,064	\$ 24,127
Capital assets				
Depreciable - net of accumulated depreciation	365,422	266,001	654,084	1,285,507
Total Noncurrent Assets	\$ 365,422	\$ 278,064	\$ 666,148	\$ 1,309,634
Total Assets	\$ 729,465	\$ 329,022	\$ 767,499	\$ 1,825,986
<u>Deferred Outflows of Resources</u>				
Related to pensions	\$ 9,299	\$ 6,094	\$ 6,413	\$ 21,806
<u>Liabilities</u>				
Current Liabilities				
Accounts payable	\$ 719	\$ 17,528	\$ 19,557	\$ 37,804
Salaries payable	1,633	1,473	1,473	4,579
Compensated absences payable	-	513	606	1,119
Due to other funds	-	77,996	4,764	82,760
Due to other governments	5,023	47	101	5,171
Water and sewer revenue bonds payable	-	24,000	16,000	40,000
Total Current Liabilities	\$ 7,375	\$ 121,557	\$ 42,501	\$ 171,433
Noncurrent Liabilities				
Compensated absences payable	\$ -	\$ 979	\$ 1,049	\$ 2,028
Net pension liability	50,422	33,035	34,774	118,231
Water and sewer revenue bonds payable	-	26,430	12,620	39,050
Total Noncurrent Liabilities	\$ 50,422	\$ 60,444	\$ 48,443	\$ 159,309
Total Liabilities	\$ 57,797	\$ 182,001	\$ 90,944	\$ 330,742
<u>Deferred Inflows of Resources</u>				
Related to pensions	\$ 2,774	\$ 1,818	\$ 1,913	\$ 6,505
<u>Net Position</u>				
Net investment in capital assets	\$ 365,422	\$ 215,001	\$ 625,085	\$ 1,205,508
Unrestricted amounts	312,771	(63,704)	55,970	305,037
Total Net Position	\$ 678,193	\$ 151,297	\$ 681,055	\$ 1,510,545

**CITY OF VERGAS
VERGAS, MINNESOTA**

EXHIBIT 8

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

	Liquor Enterprise	Sewer Enterprise	Water Enterprise	Total
Sales and Cost of Goods Sold				
Sales	\$ 736,331	\$ -	\$ -	\$ 736,331
Cost of goods sold	(532,594)	-	-	(532,594)
Gross Profit	\$ 203,737	\$ -	\$ -	\$ 203,737
Operating Revenues				
Charges for services	-	92,434	103,695	196,129
Total Gross Profit and Operating Revenues	\$ 203,737	\$ 92,434	\$ 103,695	\$ 399,866
Operating Expenses				
Personnel services	\$ 54,343	\$ 58,907	\$ 59,205	\$ 172,455
Professional services	4,175	906	1,167	6,248
Advertising	7,323	-	-	7,323
Insurance	6,330	1,375	1,118	8,823
Repairs and maintenance	6,271	18,103	953	25,327
Supplies	16,083	3,349	7,691	27,123
Utilities	8,827	7,648	5,495	21,970
Miscellaneous	2,987	1,762	3,694	8,443
Depreciation	15,145	7,417	29,409	51,971
Total Operating Expenses	\$ 121,484	\$ 99,467	\$ 108,732	\$ 329,683
Operating Income (Loss)	\$ 82,253	\$ (7,033)	\$ (5,037)	\$ 70,183
Nonoperating Revenues (Expenses)				
Special assessments	\$ -	\$ 1,106	\$ 1,108	\$ 2,214
Investment earnings	511	741	220	1,472
Interest expense	-	(3,717)	(2,478)	(6,195)
Miscellaneous	1,931	86	706	2,723
Total Nonoperating Revenues (Expenses)	\$ 2,442	\$ (1,784)	\$ (444)	\$ 214
Income (Loss) Before Transfers	\$ 84,695	\$ (8,817)	\$ (5,481)	\$ 70,397
Transfers in	5,203	-	-	5,203
Transfers out	(30,000)	-	-	(30,000)
Change in Net Position	\$ 59,898	\$ (8,817)	\$ (5,481)	\$ 45,600
Net Position - January 1	618,295	160,114	686,536	1,464,945
Net Position - December 31	\$ 678,193	\$ 151,297	\$ 681,055	\$ 1,510,545

**CITY OF VERGAS
VERGAS, MINNESOTA**

EXHIBIT 9

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2020
Increase (Decrease) in Cash and Cash Equivalents**

	Liquor Enterprise	Sewer Enterprise	Water Enterprise	Total
Cash Flows from Operating Activities				
Receipts from customers	\$ 807,477	\$ 92,326	\$ 103,775	\$ 1,003,578
Payments to employees	(54,651)	(59,139)	(58,831)	(172,621)
Payments to suppliers	(679,733)	(33,676)	(21,538)	(734,947)
Net cash provided by (used in) operating activities	\$ 73,093	\$ (489)	\$ 23,406	\$ 96,010
Cash Flows from Noncapital Financing Activities				
Special assessments received	\$ -	\$ 5,505	\$ 5,505	\$ 11,010
Miscellaneous	1,800	-	-	1,800
Transfers from other funds	-	73,439	39,734	113,173
Transfers to other funds	(30,000)	(39,734)	(73,439)	(143,173)
Net cash provided by (used in) noncapital financing activities	\$ (28,200)	\$ 39,210	\$ (28,200)	\$ (17,190)
Cash Flows from Capital and Related Financing Activities				
Purchase of capital assets	\$ (28,081)	\$ (10,754)	\$ (17,282)	\$ (56,117)
Principal paid on bonds	-	(24,000)	(16,000)	(40,000)
Interest paid on bonds	-	(3,432)	(2,288)	(5,720)
Net cash provided by (used in) capital and related financing activities	\$ (28,081)	\$ (38,186)	\$ (35,570)	\$ (101,837)
Cash Flows from Investing Activities				
Investment earnings received	\$ 511	\$ 206	\$ 68	\$ 785
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 17,323	\$ 741	\$ (40,296)	\$ (22,232)
Cash and Cash Equivalents at January 1	108,053	48,152	64,669	220,874
Cash and Cash Equivalents at December 31	\$ 125,376	\$ 48,893	\$ 24,373	\$ 198,642

**CITY OF VERGAS
VERGAS, MINNESOTA**

**EXHIBIT 9
(Continued)**

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2020
Increase (Decrease) in Cash and Cash Equivalents**

	Liquor Enterprise	Sewer Enterprise	Water Enterprise	Total
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities				
Operating income (loss)	\$ 82,253	\$ (7,033)	\$ (5,037)	\$ 70,183
Adjustments to reconcile net operating income (loss) to net cash provided by (used in) operating activities				
Depreciation expense	\$ 15,145	\$ 7,417	\$ 29,409	\$ 51,971
(Increase) decrease in assets				
Accounts receivable	-	(108)	(812)	(920)
Inventory	(17,678)	-	-	(17,678)
Increase (decrease) in liabilities				
Accounts payable	(7,378)	(756)	(548)	(8,682)
Salaries payable	580	159	159	898
Compensated absences payable	-	190	211	401
Due to other governments	1,059	47	20	1,126
Net pension liability	(888)	(405)	4	(1,289)
Total adjustments	\$ (9,160)	\$ 6,544	\$ 28,443	\$ 25,827
Net cash provided by (used in) operating activities	\$ 73,093	\$ (489)	\$ 23,406	\$ 96,010

CITY OF VERGAS VERGAS, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2020

I. Summary of Significant Accounting Policies

The City's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP), except as described in the basis for qualified opinion on page 3. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by the City are discussed below.

A. Financial Reporting Entity

The Charter of the City of Vergas was adopted on November 10, 1903, and has the powers, duties, and privileges granted by state law, codified in Minnesota Statutes, Chapter 412. The City operates under a Mayor-Council form of government and provides services such as general government, public safety, highways and streets, sanitation, culture and recreation, economic development, municipal liquor store, and sewer and water utilities as authorized by its charter.

The Vergas Fire Relief Association is organized to provide pension and other benefits to its members in accordance with Minnesota statutes. The Relief Association is a defined benefit plan type, and is required by GASB Pronouncement No. 68 to be included in the financial statements of the City.

Blended Component Unit

The Vergas Economic Development Authority was created in 2015 and is reported as a nonmajor Special Revenue Fund within the City's financial statements. The Authority's Board of Directors includes two members of the Vergas City Council, with the City Clerk/Treasurer also serving as Secretary/Treasurer of the EDA. The Authority has no capital assets or debt. The Authority does not issue separate financial statements.

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) include the financial activities of the overall City government. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external parties for support.

In the government-wide statement of net position, both the governmental and business-type activities columns: (a) are presented on a consolidated basis by column; and (b) are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The City's net position is reported in three parts: (1) net investment in capital assets; (2) restricted net position; and (3) unrestricted net position. The City first utilizes restricted resources to finance qualifying activities.

The statement of activities demonstrates the degree to which the direct expenses of each function of the City's governmental activities and different business-type activities are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. Program

CITY OF VERGAS VERGAS, MINNESOTA

I. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

revenues include: (1) fees, charges, and other revenues paid by the recipients of goods, services, or privileges provided by a given function or activity; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or activity. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues and transfers.

2. Fund Financial Statements

The fund financial statements provide information about the City's funds. Separate statements for each fund category—governmental and proprietary—are presented. The emphasis of governmental and proprietary fund financial statements is on major individual governmental and enterprise funds, with each displayed as separate columns in the fund financial statements.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as property taxes, grants, donations, subsidies and investment earnings, result from nonexchange transactions or incidental activities.

The City reports the following major governmental funds:

The General Fund is the City's primary operating fund. It accounts for and reports all financial resources of the general government not accounted for in another fund.

The 2006 Street Project Debt Service Fund is used to account for and report the collection of special assessments restricted for debt service.

The 2019 Street Project Debt Service Fund is used to account for and report the collection of special assessments restricted for debt service.

Additionally, the City reports the Vergas Economic Development Authority Special Revenue Fund as a non-major fund.

The City reports the following major enterprise funds:

The Liquor Store Enterprise Fund is used to account for operations of the liquor store. Financing is provided through the liquor store's sale of off-sale liquor.

The Sewer Enterprise Fund is used to account for operations of the sewer utility. Financing is provided by charges to residents for services.

The Water Enterprise Fund is used to account for operations of the water utility. Financing is provided by charges to residents for services.

**CITY OF VERGAS
VERGAS, MINNESOTA**

I. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. The City considers tax revenues to be available if they are collected within 60 days after the end of the current period. Intergovernmental revenues, charges for services, and interest are all considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of general long-term debt are reported as other financing sources.

As a general rule, the effect of internal activity has been eliminated from the government-wide financial statements.

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

1. Cash and Cash Equivalents

The City has defined cash and cash equivalents to include cash on hand and demand deposits. Additionally, each fund's equity in the City's deposits is treated as a cash equivalent because the funds can deposit or effectively withdraw cash at any time without prior notice or penalty.

2. Deposits and Investments

The cash balances of the funds are invested by the City Clerk-Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2020, based on market prices. Investment earnings on cash and pooled investments are allocated to the funds with deposits. Total investment earnings for 2020 were \$5,669.

3. Receivables and Payables

Property taxes are levied as of January 1 on property values assessed as of the same date. The tax levy notice is mailed by Otter Tail County in March with the first half payment due on May 15 and the second half due on October 15.

Taxes and special assessments receivable consist of uncollected taxes and special assessments payable in the years 2007 through 2020 and noncurrent special assessments collectible in 2021 and beyond. Taxes receivable are offset by deferred inflows of resources for the amount not collected within 60 days of December 31 to indicate they are not available to finance current expenditures. No provision has been made for an estimated uncollectible amount.

**CITY OF VERGAS
VERGAS, MINNESOTA**

I. Summary of Significant Accounting Policies

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

3. Receivables and Payables (Continued)

Accounts receivable consist primarily of charges for services for sewer and water.

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances from/to other funds” (i.e., the non-current portion of interfund loans).

All other outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

All receivables are shown net of an allowance for uncollectible amounts, if applicable.

4. Inventory

All inventories are valued at cost using the First-In, First-Out (FIFO) method. Inventories in the proprietary funds are recorded as expenses when consumed.

5. Capital Assets

Capital assets, which include land, construction in progress, infrastructure (e.g., sewers and water mains), buildings and improvements, and machinery and equipment, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years, except land which is capitalized regardless of cost. Capital assets are recorded at historical cost or estimated historical cost when purchased or constructed. Donated capital assets are recorded at acquisition value at the date of acquisition.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extended the life of the asset are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Infrastructure, buildings and improvements, and machinery and equipment are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Infrastructure	30-50
Buildings and improvements	20-30
Machinery and equipment	5-10

**CITY OF VERGAS
VERGAS, MINNESOTA**

I. Summary of Significant Accounting Policies

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

6. Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position reports 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 funds Statement of Net Position in relation to the activity of the pension funds in which City employees participate.

In addition to liabilities, the Statement 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 special assessments levied for subsequent years and delinquent property tax and special assessments receivable as deferred inflows of resources in the governmental funds, in accordance with the modified accrual basis of accounting. In addition, the City reports deferred inflows of resources in the government-wide and proprietary funds Statement of Net Position in relation to the activity of the pension funds in which City employees participate. Accordingly, such amounts are deferred and recognized as inflows of resources in the period that they become available.

7. Compensated Absences

The liability for compensated absences reported in financial statements consists of unpaid, accumulated annual vacation and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. Compensated absences are accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements. Compensated absences are generally liquidated by the General Fund, Liquor Fund, and the Sewer and Water Enterprise Funds.

8. Long-Term Obligations

In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental and business-type activities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are immediately expensed. In the fund financial statements, governmental fund types recognize the face amount of the debt is reported as other financing sources when issued.

9. Pensions

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA except that PERA's fiscal year end is June 30. For this

**CITY OF VERGAS
VERGAS, MINNESOTA**

I. Summary of Significant Accounting Policies

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

9. Pensions (Continued)

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. For the governmental activities, the pension liability is liquidated by the General Fund. For the business type activities, the pension liability is liquidated by the Liquor, Sewer, and Water Enterprise Funds.

10. Net Position and Fund Balance

Net position in the government-wide statements is classified in the following categories:

Net investment in capital assets – represents capital assets, net of accumulated depreciation, and reduced by outstanding debt attributed to the acquisition, construction, or improvement of the assets.

Restricted net position – the amount of net position for which external restrictions have been imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position – the amount of net position that does not meet the definition of restricted or net investment of capital assets.

In the fund financial statements, the City classifies governmental fund balances as follows:

Non-spendable – includes fund balance amounts that cannot be spent because it is either not in spendable form or legally or contractually required to be maintained intact. The City of Vergas has no non-spendable fund balance as of December 31, 2020.

Restricted – includes fund balance amounts that are constrained for specific purposes which are either externally imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Committed – includes fund balance amounts that are constrained for specific purposes imposed by resolution of the City Council and do not lapse at year-end. To remove the constraint on specified use of committed resources the City Council shall pass a resolution.

Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither restricted nor committed. The City Council has delegated the authority to assign and remove assignments of fund balance amounts for specified purposes to the City Clerk-Treasurer. The City of Vergas has no assigned fund balance as of December 31, 2020.

Unassigned – includes positive fund balance within the General Fund, which has not been classified within the above-mentioned categories, and negative fund balances in other governmental funds.

**CITY OF VERGAS
VERGAS, MINNESOTA**

I. Summary of Significant Accounting Policies

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

10. Net Position and Fund Balance (Continued)

The City will maintain an unrestricted fund balance in the General Fund of an amount not less than 35 to 50 percent of next year's budgeted expenditures of the General Fund. Unrestricted fund balance can be "spent down" if there is an anticipated budget shortfall. If spending unrestricted fund balance in designated circumstances has reduced unrestricted fund balance to a point below the minimum targeted level, as noted above, the replenishment will be funded by taxes.

Stabilization arrangements are defined as formally setting aside amounts for use in emergency situations or when revenue shortages or budgetary imbalances arise. The City Council will set aside amounts by resolution as deemed necessary that can only be expended when an emergency situation, revenue shortages, or budgetary imbalances exist as the need for stabilization arises. The need for stabilization will only be utilized for situations that are not expected to occur routinely. The City does not identify an amount for stabilization as of December 31, 2020.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed. When committed, assigned or unassigned resources are available for use, it is the City's policy to use resources in the following order: 1) committed, 2) assigned, and 3) unassigned.

11. 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, liabilities, and deferred outflows/inflows of resources, and disclosure of contingent amounts at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

CITY OF VERGAS VERGAS, MINNESOTA

II. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

Reconciliations of the City's total deposits and investments to the basic financial statements, as of December 31, 2020, are as follows:

Government-wide Statement of Net Position	
Governmental Activities	
Cash and pooled investments	\$ 285,252
Investments	113,409
Business-type Activities	
Cash and pooled investments	63,848
Investments	134,794
	<hr/>
Total Cash and Investments	\$ 597,303
	<hr/>
Checking accounts	\$ 349,099
Savings accounts	174,565
Certificates of deposit	73,639
	<hr/>
Total Deposits	\$ 597,303
	<hr/>

Deposits

Minnesota Statutes, §§ 118A.02 and 118A.04 authorize the City to deposit its cash and to invest in certificates of deposit in financial institutions designated by the Board. Minnesota Statute, § 118A.03 requires that all City deposits be covered by insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit plus accrued interest at the close of the financial institution's banking day, not covered by insurance or bonds.

Authorized collateral includes treasury bills, notes, and bonds; issues of U.S. government agencies; general obligations rated "A" or better, revenue obligations rated "AA" or better; irrevocable standard letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution not owned or controlled by the financial institution furnishing the collateral.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the City's deposits may not be returned to it. It is the City's policy to comply with Minnesota statutes in establishing authorized collateral for deposits. As of December 31, 2020, the City's deposits were not exposed to custodial credit risk.

**CITY OF VERGAS
VERGAS, MINNESOTA**

II. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2020, for the City's governmental and business-type activities, are as follows:

	<u>Total Receivables</u>	<u>Amounts Not Scheduled for Collection During the Subsequent Year</u>
Governmental Activities		
Taxes	\$ 7,362	\$ -
Special Assessments	589,622	564,082
Accounts	34	-
Due from other governments	45,735	-
	<u>\$ 642,753</u>	<u>\$ 564,082</u>
Total Governmental Activities	<u>\$ 642,753</u>	<u>\$ 564,082</u>
Business-Type Activities		
Special assessments	\$ 24,602	\$ 24,127
Accounts	5,219	-
	<u>\$ 29,821</u>	<u>\$ 24,127</u>
Total Business-Type Activities	<u>\$ 29,821</u>	<u>\$ 24,127</u>

3. Capital Assets

Capital asset activity for the governmental and business-type activities for the year ended December 31, 2020, was as follows:

Governmental Activities

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated				
Land	\$ 94,238	\$ -	\$ -	\$ 94,238
Construction in progress	-	55,346	-	55,346
	<u>\$ 94,238</u>	<u>\$ 55,346</u>	<u>\$ -</u>	<u>\$ 149,584</u>
Total capital assets not depreciated	<u>\$ 94,238</u>	<u>\$ 55,346</u>	<u>\$ -</u>	<u>\$ 149,584</u>
Capital assets being depreciated				
Infrastructure	\$ 1,579,981	\$ 462,618	\$ -	\$ 2,042,599
Buildings and improvements	87,026	-	-	87,026
Machinery and equipment	242,284	12,000	-	254,284
	<u>\$ 1,909,291</u>	<u>\$ 474,618</u>	<u>\$ -</u>	<u>\$ 2,383,909</u>
Total capital assets being depreciated	<u>\$ 1,909,291</u>	<u>\$ 474,618</u>	<u>\$ -</u>	<u>\$ 2,383,909</u>
Less: accumulated depreciation for				
Infrastructure	\$ 167,696	\$ 31,602	\$ -	\$ 199,298
Buildings and improvements	44,024	2,960	-	46,984
Machinery and equipment	122,469	18,539	-	141,008
	<u>\$ 334,189</u>	<u>\$ 53,101</u>	<u>\$ -</u>	<u>\$ 387,290</u>
Total accumulated depreciation	<u>\$ 334,189</u>	<u>\$ 53,101</u>	<u>\$ -</u>	<u>\$ 387,290</u>
Total capital assets, depreciated, net	<u>\$ 1,575,102</u>	<u>\$ 421,517</u>	<u>\$ -</u>	<u>\$ 1,996,619</u>
Governmental Activities				
Capital Assets, Net	<u>\$ 1,669,340</u>	<u>\$ 476,863</u>	<u>\$ -</u>	<u>\$ 2,146,203</u>

**CITY OF VERGAS
VERGAS, MINNESOTA**

II. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

Business-Type Activities

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets being depreciated				
Infrastructure	\$ 1,662,580	\$ 64,275	\$ -	\$ 1,726,855
Buildings and improvements	494,724	-	-	494,724
Machinery and equipment	57,874	33,284	-	91,158
	<u>\$ 2,215,178</u>	<u>\$ 97,559</u>	<u>\$ -</u>	<u>\$ 2,312,737</u>
Less: accumulated depreciation for				
Infrastructure	\$ 772,356	\$ 36,584	\$ -	\$ 808,940
Buildings and improvements	145,029	15,387	-	160,416
Machinery and equipment	57,874	-	-	57,874
	<u>\$ 975,259</u>	<u>\$ 51,971</u>	<u>\$ -</u>	<u>\$ 1,027,230</u>
Business-Type Activities				
Capital Assets, Net	<u><u>\$ 1,239,919</u></u>	<u><u>\$ 45,588</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,285,507</u></u>

Depreciation Expense

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

Governmental Activities	
General government	\$ 1,882
Public safety	957
Highways and streets	33,752
Sanitation	9,273
Culture and recreation	7,237
	<u>7,237</u>
Total Depreciation Expense - Governmental Activities	<u><u>\$ 53,101</u></u>
Business-Type Activities	
Liquor	\$ 15,145
Sewer	7,417
Water	29,409
	<u>29,409</u>
Total Depreciation Expense - Business-Type Activities	<u><u>\$ 51,971</u></u>

**CITY OF VERGAS
VERGAS, MINNESOTA**

II. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2020, is as follows:

Due To/From Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	
2006 Street Service Debt Service Fund	General Fund	\$ 20,453	Posting errors for taxes in 2017-2020
	Sewer Enterprise Fund	4,557	Posting errors for taxes in 2017-2020
	Water Enterprise Fund	<u>4,764</u>	Posting errors for taxes in 2017-2020
Total Due To 2006 Street Debt Service Fund:		\$ 29,774	
Water Enterprise Fund	Sewer Enterprise Fund	<u>73,439</u>	To cover cash deficit
Total Due To /Due From Other Funds:		<u><u>\$ 103,213</u></u>	

Interfund Transfers

Interfund transfers for the year ended December 31, 2020, consisted of the following operating transfer:

Transfer to General Fund from Liquor Enterprise Fund	\$ 30,000	Appropriation
Transfer to 2006 Street Project Debt Service Fund from General Fund	126,621	Transfer unused bond proceeds
Transfer to Liquor Enterprise Fund from General Fund	5,203	For portion of sign purchase
Transfer to Vergas EDA Special Revenue Fund from General Fund	<u>6,000</u>	Appropriation
Total Interfund Transfers:	<u><u>\$ 167,824</u></u>	

**CITY OF VERGAS
VERGAS, MINNESOTA**

II. Detailed Notes on All Funds (Continued)

C. Liabilities

Compensated Absences

Under the City's personnel policies, employees are granted paid time off (PTO) in varying amounts based on their length of service. PTO accrual varies from 15 to 25 days per year with a maximum accrual limit of 25 days. Accrued PTO will be paid to employees leaving in good standing upon resignation or retirement.

Long-Term Debt

Governmental Activities

The City of Vergas General Obligation Improvement Refunding Bonds of 2015 represent debt incurred to refund General Obligation Improvement Bonds of 2006. These bonds have an original issue amount of \$299,000. They carry a net interest rate of 2.4158 percent and are due in annual installments from the 2006 Street Debt Service Fund of between \$27,000 and \$33,000 and mature in 2027. As a result of the refunding, the City realized an economic gain of \$32,189 with a present value of \$25,352. The balance due on December 31, 2020 is \$198,000.

The City of Vergas Capital Equipment Notes of 2017 represent debt incurred for the purchase of a loader. These notes have an original issue amount of \$140,500, carry an interest rate of 0 percent, are due in semi-annual installments paid from the General Fund of \$35,125 through June of 2021. The balance due on December 31, 2020 is \$35,125.

The City of Vergas General Obligation Improvement Bonds, Series 2019A, represent debt incurred to finance various street improvement projects throughout the City. These bonds have an original issue amount of \$985,000, carry an interest rate of 3.2644 percent, and are due in semi-annual installments paid from the 2019 Street Project Debt Service Fund of \$40,000 to \$65,000 through February 1, 2040. The balance due on these bonds at December 31, 2020, is \$965,958, net of unamortized bond discount of \$19,042.

Business-Type Activities

The City of Vergas General Obligation Water and Sewer Revenue Refunding Bonds, Series 2009 represent debt incurred to refund General Obligation Water and Sewer Revenue Bonds of 1994 and General Obligation Sewer Revenue Bonds of 2000. These bonds have an original issue amount of \$475,000. They carry a net interest rate of 4.0857 percent and are due in annual installments from the Water and Sewer Funds of between \$16,000 and \$27,000 and mature in 2022. As a result of the refunding, the City realized an economic gain of \$83,630 with a present value of \$16,793. The balance due on December 31, 2020 is \$79,050, net of unamortized bond discount of \$950.

**CITY OF VERGAS
VERGAS, MINNESOTA**

II. Detailed Notes on All Funds

C. Liabilities

Long-Term Debt (Continued)

Debt Service Requirements

Debt service requirements for the governmental and the business-type activities at December 31, 2020, are as follows:

Year Ending December 31	Governmental Activities					
	General Obligation Refunding Bonds of 2015		General Obligation Street Improvement Bonds, 2019A		Capital Equipment Notes of 2017	
	Principal	Interest	Principal	Interest	Principal	Interest
2021	\$ 27,000	\$ 4,593	40,000	28,322	\$ 35,125	\$ -
2022	26,000	4,089	40,000	27,402	-	-
2023	25,000	3,511	40,000	26,482	-	-
2024	30,000	2,783	40,000	25,532	-	-
2025	29,000	2,001	40,000	24,552	-	-
2026-2027	61,000	1,683	225,000	105,262	-	-
2028-2035	-	-	260,000	70,472	-	-
2036-2040	-	-	300,000	25,843	-	-
Subtotal:	\$ 198,000	\$ 18,660	\$ 985,000	\$ 333,867	\$ 35,125	\$ -
Less bond discount	-	-	(19,042)	-	-	-
Total:	<u>\$ 198,000</u>	<u>\$ 18,660</u>	<u>\$ 965,958</u>	<u>\$ 333,867</u>	<u>\$ 35,125</u>	<u>\$ -</u>

Year Ending December 31	Business-Type Activities	
	General Obligation Water and Sewer Revenue Refunding Bonds, Series 2009	
	Principal	Interest
2021	\$ 40,000	\$ 3,480
2022	40,000	1,740
	\$ 80,000	\$ 5,220
Less: Bond discount	(950)	-
Total	<u>\$ 79,050</u>	<u>\$ 5,220</u>

**CITY OF VERGAS
VERGAS, MINNESOTA**

III. Detailed Notes on All Funds

C. Liabilities (Continued)

Changes in Long-Term Liabilities

Governmental Activities

Long-term liability activity for the governmental activities for the year ended December 31, 2020, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Capital Equipment Notes of 2017	\$ 52,687	\$ -	\$ 17,562	\$ 35,125	\$ 35,125
General Obligation Refunding Bonds of 2015	225,000	-	27,000	198,000	27,000
General Obligation Improvement Bonds, Series 2019A	985,000	-	-	985,000	40,000
Less: Bond discount	(19,994)	-	(952)	(19,042)	-
Compensated Absences	854	2,170	2,045	979	291
Net Pension Liability	<u>45,999</u>	<u>9,638</u>	<u>-</u>	<u>55,637</u>	<u>-</u>
Governmental Activities Long-Term Liabilities	<u>\$ 1,289,546</u>	<u>\$ 11,808</u>	<u>\$ 45,655</u>	<u>\$ 1,255,699</u>	<u>\$ 102,416</u>

Business-Type Activities

Long-term liability activity for the business-type activities for the year ended December 31, 2020, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
General Obligation Water and Sewer Revenue Refunding Bonds, Series 2009	\$ 120,000	\$ -	\$ 40,000	\$ 80,000	\$ 40,000
Less: Bond discount	(1,425)	-	(950)	(475)	-
Compensated Absences	2,746	5,254	4,853	3,147	1,119
Net Pension Liability	<u>97,749</u>	<u>20,482</u>	<u>-</u>	<u>118,231</u>	<u>-</u>
Business-Type Activities Long-Term Liabilities	<u>\$ 219,070</u>	<u>\$ 5,254</u>	<u>\$ 43,903</u>	<u>\$ 200,903</u>	<u>\$ 41,119</u>

**CITY OF VERGAS
VERGAS, MINNESOTA**

III. Detailed Notes on All Funds (Continued)

D. Deferred Inflows of Resources

Deferred inflows of resources consist of taxes and special assessments, not collected soon enough after year-end to pay liabilities of the current period. Deferred inflows of resources at December 31, 2020, are summarized below by fund:

	Taxes	Special Assessments	Total
Major governmental funds			
General	\$ 832	\$ -	\$ 832
Debt Service Fund			
2006 Street Improvements	55	46,773	46,828
2019 Street Improvements	-	518,264	518,264
	<u>887</u>	<u>565,037</u>	<u>565,924</u>
Total	<u>\$ 887</u>	<u>\$ 565,037</u>	<u>\$ 565,924</u>

IV. Defined Benefit Pension Plan

A. Plan Description

The City of Vergas 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 City of Vergas. General Employees Plan members belong to the Coordinated Plan. Coordinated Plan members are covered by Social Security.

B. Benefits Provided

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

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

**CITY OF VERGAS
VERGAS, MINNESOTA**

IV. Defined Benefit Pension Plan

B. Benefits Provided

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

C. Contributions

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

Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in fiscal year 2020 and the City of Vergas was required to contribute 7.50 percent for Coordinated Plan members. The City of Vergas's contributions to the General Employees Fund for the year ended December 31, 2020, were \$16,498. The City of Vergas's contributions were equal to the required contributions as set by state statute.

D. Pension Costs

At December 31, 2020, the City of Vergas reported a liability of \$173,868 for its proportionate share of the General Employees Fund's net pension liability. The City of Vergas'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 of Vergas totaled \$5,201. 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 of Vergas's proportionate share of the net pension liability was based on the City of Vergas'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 of Vergas's proportionate share was .0029 percent at the end of the measurement period and .0026 percent for the beginning of the period.

City of Vergas	
Proportionate share of the net pension liability	\$ 53,959
State of Minnesota's proportionate share of the net pension liability associated with the City of Vergas	<u>5,201</u>
Total	<u><u>\$ 59,160</u></u>

**CITY OF VERGAS
VERGAS, MINNESOTA**

There were no provision changes during the measurement period.

IV. Defined Benefit Pension Plan

D. Pension Costs (Continued)

For the year ended December 31, 2020, the City of Vergas recognized pension expense of \$19,587 for its proportionate share of the General Employees Plan's pension expense. In addition, the City of Vergas recognized \$453 as grant revenue for its proportionate share of the State of Minnesota's pension expense for the annual \$16 million contribution.

At December 31, 2020, the City of Vergas reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 1,423	\$ 658
Changes in actuarial assumptions	-	6,134
Net collective difference between projected and actual investment earnings	4,742	-
Changes in proportion	17,228	2,774
Contributions paid to PERA subsequent to the measurement date	8,674	-
Total	<u>\$ 32,067</u>	<u>\$ 9,566</u>

The \$8,674 reported as deferred outflows of resources related to pensions resulting from the City of Vergas 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 Amount:
2021	\$ (611)
2022	\$ 2,814
2023	\$ 7,424
2024	\$ 4,200
2025	\$ -

There were no provision changes during the measurement period.

E. Total Pension Expense

The total pension expense for General Employees Plan recognized by the City of Vergas for the year ended December 31, 2020 was \$20,040.

**CITY OF VERGAS
VERGAS, MINNESOTA**

IV. Defined Benefit Pension Plan (Continued)

F. Actuarial Assumptions

The total pension liability in the June 30, 2019, actuarial valuation was determined using an individual entry-age normal actuarial cost method and the following actuarial assumptions:

Inflation	2.25% per year
Active Member Payroll Growth	3.00% per year
Investment Rate of Return	7.50%

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 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.

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

**CITY OF VERGAS
VERGAS, MINNESOTA**

IV. Defined Benefit Pension Plan

F. Actuarial Assumptions

General Employees Fund

Changes in Actuarial Assumptions (Continued)

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

Changes in Plan Provisions

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Rate of Return</u>
Domestic Equity	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	2.0%	0.00%
Total	100.0%	

F. Discount Rate

The discount rate used to measure the total pension liability in 2020 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 positions of the General Employees Fund, the Police and Fire Fund, and the Correctional 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.

**CITY OF VERGAS
VERGAS, MINNESOTA**

IV. Defined Benefit Pension Plan (Continued)

G. Pension Liability Sensitivity

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

Sensitivity Analysis		
<i>Net Pension Liability (Asset) at Different Discount</i>		
<i>Discount Rates</i>		
	General Employees Fund	
1% Lower	6.50%	\$ 278,681
Current Discount Rate	7.50%	\$ 173,868
1% Higher	8.50%	\$ 87,431

H. 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.

V. Public Employees Defined Contribution Plan (Defined Contribution Plan)

Three employees of the City of Vergas 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 of Vergas during fiscal year 2020 were:

Contribution Amount		Percentage of Covered Payroll		Required Rate
Employee	Employer	Employee	Employer	
\$ 310	\$ 310	5%	5%	5%

**CITY OF VERGAS
VERGAS, MINNESOTA**

VI. Summary of Significant Contingencies and Other Items

A. Claims and Litigation

The City, in connection with the normal conduct of its affairs, may be involved in various claims, judgments, and litigation. The City Council estimates that the potential claims against the City not covered by insurance resulting from such litigation would not materially affect the financial statements of the City.

B. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage, or destruction of assets; errors or omissions; injuries to employees; employee health coverage; or natural disasters. The City has entered into a joint powers agreement with other Minnesota cities to form the League of Minnesota Cities Insurance Trust (LMCIT) to cover workers' compensation and property and casualty liabilities. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for each of the past three fiscal years.

The League of Minnesota Cities Insurance Trust is a public entity risk pool currently operated as a common risk management and insurance program for its members. The City pays an annual premium based on its annual payroll and an experience modification factor for workers' compensation coverage.

C. Conduit Debt

Pursuant to Minn. Stat. Sec. §462C, as amended (the "Housing Act"), and Minn. Stat. Sec. §471.656, as amended (the "Industrial Development Act"), the City issued revenue bonds to provide financial refinancing assistance to CDL Homes, Inc. a Minnesota nonprofit corporation which owns and operates nursing home and skilled care facilities in Minnesota. The bonds are secured by the property financed through a series of loan agreements and are payable solely from the revenues of CDL Homes, Inc. The City is not obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the financial statements. As of December 31, 2020, the balance due on these bonds is \$9,005,000.

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF VERGAS
VERGAS, MINNESOTA**

Schedule 1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2020**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
				Positive
				(Negative)
Revenues				
Property taxes	\$ 228,179	\$ 228,179	\$ 229,464	\$ 1,285
Licenses and permits	27,880	27,880	26,266	(1,614)
Intergovernmental	48,450	48,450	316,166	267,716
Charges for services	28,000	28,000	676	(27,324)
Gifts and contributions	5,000	5,000	15,574	10,574
Investment earnings	150	150	236	86
Miscellaneous	29,000	29,000	164,923	135,923
Total Revenues	\$ 366,659	\$ 366,659	\$ 753,305	\$ 386,646
Expenditures				
Current				
General government				
Mayor/council	\$ 8,930	\$ 8,930	\$ 6,436	\$ 2,494
City clerk/treasurer	39,850	39,850	28,616	11,234
Administration	22,850	22,850	24,573	(1,723)
Elections	-	-	2,447	(2,447)
Legal	9,000	9,000	8,222	778
Cemetery	250	250	225	25
Insurance	-	-	2,632	(2,632)
Other general government	-	-	9,681	(9,681)
Total general government	\$ 80,880	\$ 80,880	\$ 82,832	\$ (1,952)
Public safety				
Fire	\$ 23,400	\$ 23,400	\$ 19,076	\$ 4,324
Fire relief association	-	-	14,809	(14,809)
Total public safety	\$ 23,400	\$ 23,400	\$ 33,885	\$ (10,485)
Highways and streets				
Street department	\$ 94,620	\$ 94,620	\$ 52,707	\$ 41,913
Snow and ice removal	3,700	3,700	194	3,506
Street lighting	8,000	8,000	7,253	747
Shop	7,500	7,500	6,749	751
Total highways and streets	\$ 113,820	\$ 113,820	\$ 66,903	\$ 46,917
Sanitation				
Recycling center	\$ 7,515	\$ 7,515	\$ 11,834	\$ (4,319)

**CITY OF VERGAS
VERGAS, MINNESOTA**

**Schedule 1
(Continued)**

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2020**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget Positive (Negative)
Expenditures				
Current (continued)				
Culture and recreation				
Parks	\$ 59,399	\$ 59,399	\$ 72,243	\$ (12,844)
Community center	37,625	37,625	20,270	17,355
Trails	-	-	2,354	(2,354)
Recreational programs	6,000	6,000	-	6,000
Total culture and recreation	\$ 103,024	\$ 103,024	\$ 94,867	\$ 8,157
Debt service				
Principal retirement	\$ -	\$ -	\$ 17,562	\$ (17,562)
Capital outlay				
General government	\$ -	\$ -	\$ 55,346	\$ (55,346)
Highways and streets	17,000	17,000	26,664	(9,664)
Culture and recreation	15,000	15,000	447,954	(432,954)
Total capital outlay	\$ 32,000	\$ 32,000	\$ 529,964	\$ (497,964)
Total Expenditures	\$ 360,639	\$ 360,639	\$ 837,847	\$ (477,208)
Excess of Revenues Over (Under)				
Expenditures	\$ 6,020	\$ 6,020	\$ (84,542)	\$ (90,562)
Other Financing Sources (Uses)				
Transfers in	\$ 15,000	\$ 15,000	\$ 30,000	\$ 15,000
Transfers out	-	-	(137,824)	(137,824)
Total Other Financing Sources (Uses)	\$ 15,000	\$ 15,000	\$ (107,824)	\$ (122,824)
Net Change in Fund Balance	\$ 21,020	\$ 21,020	\$ (192,366)	\$ (213,386)
Fund Balance - January 1	372,283	372,283	372,283	-
Fund Balance - December 31	\$ 393,303	\$ 393,303	\$ 179,917	\$ (213,386)

**CITY OF VERGAS
VERGAS, MINNESOTA**

Schedule 2

**SCHEDULE OF CONTRIBUTIONS
PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF MINNESOTA
FOR THE YEAR ENDED DECEMBER 31, 2020**

GENERAL EMPLOYEES RETIREMENT FUND PENSION PLAN

Fiscal Year Ending	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
December 31, 2020	\$ 16,498	\$ 16,498	\$ -	\$ 221,039	7.5%
December 31, 2019	\$ 15,680	\$ 15,680	\$ -	\$ 209,067	7.5%
December 31, 2018	\$ 13,454	\$ 13,454	\$ -	\$ 179,387	7.5%
December 31, 2017	\$ 12,565	\$ 12,565	\$ -	\$ 167,533	7.5%
December 31, 2016	\$ 12,653	\$ 12,653	\$ -	\$ 168,706	7.5%
December 31, 2015	\$ 12,150	\$ 12,150	\$ -	\$ 162,974	7.5%

Note: This schedule is intended to present 10 years and will be completed as information becomes available.

**CITY OF VERGAS
VERGAS, MINNESOTA**

Schedule 3

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PUBLIC EMPLOYEES RETIREMENT ASSOCIATION
FOR THE YEAR ENDED DECEMBER 31, 2020**

GENERAL EMPLOYEES RETIREMENT FUND PENSION PLAN

Fiscal Year Ending	Proportion of the Net Pension Liability	Proportionate Share of the Net Pension Liability (Asset)	Proportionate Share of the State of Minnesota's Proportionate Share of the Net Pension Liability	Proportionate Share of the Net Pension Liability and Proportionate Share of the State of Minnesota's Share of the Net Pension Liability	Covered Payroll	Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
June 30, 2020	0.0029%	\$ 173,868	\$ 5,201	\$ 179,069	\$ 219,914	79.06%	79.06%
June 30, 2019	0.0026%	\$ 143,748	\$ 4,500	\$ 148,248	\$ 190,677	75.39%	80.23%
June 30, 2018	0.0027%	\$ 149,785	\$ 4,933	\$ 154,718	\$ 186,928	80.13%	79.53%
June 30, 2017	0.0024%	\$ 153,214	\$ 1,939	\$ 155,153	\$ 169,253	90.52%	75.90%
June 30, 2016	0.0026%	\$ 211,107	\$ 2,826	\$ 213,933	\$ 166,322	126.93%	68.90%
June 30, 2015	0.0029%	\$ 145,111	\$ -	\$ 145,111	\$ 179,398	80.89%	78.20%

Note: This schedule is intended to present 10 years and will be completed as information becomes available.

**CITY OF VERGAS
VERGAS, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2020**

I. Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. All annual appropriations lapse at fiscal year-end.

In September of each year, the City Council drafts a preliminary budget after giving interested citizens a reasonable opportunity to be heard. The final budget is approved in December and a certified levy is sent to Otter Tail County. Truth in taxation requires that a final levy may not exceed a preliminary levy.

The appropriated budget is prepared by fund, function, and department. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the departmental level.

II. Excess of Expenditures Over Budget

The following departments had expenditures in excess of budget for the year ended December 31, 2020:

	<u>Expenditures</u>	<u>Budget</u>	<u>Excess</u>
General Fund			
General government			
Administration	\$ 24,573	\$ 22,850	\$ (1,723)
Elections	2,447	-	(2,447)
Insurance	2,632	-	(2,632)
Other general government	9,681	-	(9,681)
Public safety			
Fire relief association	14,809	-	(14,809)
Sanitation			
Recycling center	11,834	7,515	(4,319)
Culture and recreation			
Parks	72,243	59,399	(12,844)
Trails	2,354	-	(2,354)
Debt service			
Principal retirement	17,562	-	(17,562)
Capital outlay			
General government	55,346	-	(55,346)
Highways and streets	26,664	17,000	(9,664)
Culture and recreation	447,954	15,000	(432,954)

**CITY OF VERGAS
VERGAS, MINNESOTA**

III. Net Pension Liability

The information presented in the required supplementary schedules was used in the actuarial valuation for purposes of determining the actuarially determined contribution rates. The assumptions and methods used for this actuarial valuation were recommended by PERA and adopted by the City Council.

General Employees Fund

2020 Changes

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

- Augmentation for current privatized members was reduced to 2.0% for the period July 1, 2020 through December 31, 2023 and 0.0% 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.

CITY OF VERGAS VERGAS, MINNESOTA

2019 Changes (Continued)

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

Changes in Plan Provisions

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

2017 Changes

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

2016 Changes

Changes in Actuarial Assumptions

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

**CITY OF VERGAS
VERGAS, MINNESOTA**

2016 Changes

Changes in Actuarial Assumptions (Continued)

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

Changes in Plan Provisions

- There have been no changes since the prior valuation.

2015 Changes

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

OTHER SCHEDULES

**CITY OF VERGAS
VERGAS, MINNESOTA**

Schedule 4

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2020**

Shared Revenue

State

Local government aid	\$ 36,440
Market value credit	<u>772</u>

Total Shared Revenue	\$ <u>37,212</u>
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Grants

Local

Otter Tail County	\$ <u>5,000</u>
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State

Minnesota Department of Natural Resources	\$ 250,705
Public Safety	<u>900</u>

Total State Grants	\$ <u>251,605</u>
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Federal

Department of Treasury	\$ <u>27,349</u>
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Total Grants	\$ <u>283,954</u>
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Total Intergovernmental Revenue	\$ <u><u>321,166</u></u>
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MANAGEMENT AND COMPLIANCE SECTION

Colleen Hoffman, Director
Crystelle Philipp, CPA
Marit Martell, CPA



Hoffman, Philipp, & Martell, PLLC

1541 Highway 59 South | Thief River Falls, MN 56701 | Phone: 218-681-4078 | choffman@hpmaudit.com

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

Independent Auditor's Report

City Council
City of Vergas

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 and each major fund of the City of Vergas 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, and have issued our report thereon dated June 29, 2021. The governmental activities had a qualified opinion because the City did not adopt the provisions of GASB Statement No. 68.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting

that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Responses as items 2020-001, 2020-002, and 2020-003, that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Vergas' financial statements are free of 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 determination of financial statement amounts. 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

The *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minnesota Statute, § 6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories, except we did not test for compliance with the provisions for tax increment financing because the City of Vergas has no tax increment financing districts.

In connection with our audit, nothing came to our attention that caused us to believe that the City failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Cities*. 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.

City of Vergas' Responses to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting, compliance and the provisions of the *Minnesota Legal Compliance Audit Guide for Cities* and the result 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.

A handwritten signature in blue ink that reads "Hoffman, Philipp, & Martell". The signature is written in a cursive, flowing style.

Hoffman, Philipp, & Martell, PLLC
June 29, 2021

**CITY OF VERGAS
VERGAS, MINNESOTA**

**SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2020**

**I. FINDINGS RELATED TO FINANCIAL STATEMENTS AUDITED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

Finding Number: 2020-001

Prior Years Audit Finding Numbers: 2006-001, 2019-001

Finding Title: Segregation of Duties

Criteria: Management is responsible for establishing and maintaining internal control. This responsibility includes the internal controls over the various accounting cycles, the fair presentation of the financial statements and related notes, and the accuracy and completeness of all financial records and related information. Adequate segregation of duties is a key internal control in an organization's accounting system.

Condition: Due to the limited number of personnel within the City, segregation of the accounting functions necessary to ensure adequate internal accounting control is not possible. Generally, one person is responsible for billing, collecting, depositing, and recording receipts as well as reconciling bank accounts.

Context: The small size and available staffing within the City limits the internal control that management can design and implement into the organization.

Effect: Without adequate segregation of duties, opportunities for errors and irregularities or fraudulent activities to occur are created and may not be detected in a timely manner.

Cause: This is not unusual in operations the size of the City, where, because of staffing limitations, it is impractical to achieve a desirable level of segregation of duties. Management has determined that, given limited resources, it is not feasible to achieve the desired level of segregation of duties.

Recommendation: Management should continually be aware that segregation of duties is not adequate from an internal control point of view. We recommend the City Council be aware that limited staffing causes inherent risks in safeguarding the City's assets and the proper reporting of financial activity. We recommend the City Council continue to implement oversight procedures and monitor those procedures to determine if they are still effective internal controls.

City's Response: *The small size of the City limits the number of personnel available to perform separate duties, however, the City Council is aware of this situation and provides oversight and review.*

Finding Number: 2020-002

Prior Years Audit Finding Numbers: 2007-001, 2019-002

Finding Title: Internal Controls

Criteria: The financial statements are the responsibility of the City of Vergas's management. Internal control over financial reporting is a process designed to provide reliable assurance about the achievement of the City's objectives with regard to reliability of financial reporting, and compliance with applicable laws and regulations. These controls must include a process for monitoring to ensure, effectiveness and efficiency of operations.

**CITY OF VERGAS
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Condition: Internal controls over financial reporting and the safeguarding of assets against unauthorized acquisition, use, or disposition include controls related to financial reporting and operational objectives. The City does not have a process for monitoring to ensure the internal controls are effective.

Context: Although the City of Vergas has a system of internal control in spite of limited staff, they do not have written documentation of the process for monitoring those controls.

Effect: Without a documented process for monitoring internal controls, the City cannot provide assurance about the reliability of financial reporting or the effectiveness and efficiency of operations.

Cause: The City of Vergas has never formalized its policies and procedures for internal controls and monitoring of those controls into a written comprehensive document.

Recommendation: We recommend the City formalize written documentation of their internal controls and the monitoring process to ensure the reliability of financial reporting and the effectiveness and efficiency of operations.

City's Response: *The City does have some written policies and continues to work on improving internal controls over financial reporting and compliance and the documentation of those controls.*

Finding Number: 2020-003

Prior Years Audit Finding Numbers: 2015-001, 2019-003

Finding Title: Accounting and Financial Reporting for Pensions

Criteria: The Governmental Accounting Standards Board (GASB) issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, which provides accounting and reporting standards for pensions offered to retirees. GASB 68 was first applicable to the City of Vergas for the year ended December 31, 2015.

Condition: GASB Statement 68 has not yet been fully implemented by the City of Vergas as required. The City has reported net pension liability for City employees, but this does not include members of the Fire Relief Association. The City Fire Relief Association has not undergone an actuarial study to determine its net pension liability (asset).

Context: The City should encourage the Fire Relief Association to obtain an actuarial study to determine its net pension liability (asset) for its inclusion in the City's financial statements.

Effect: Because the City of Vergas has not fully complied with the requirements of GASB Statement 68, a qualified opinion is issued on the governmental activities of the City of Vergas.

Cause: The Fire Relief Association has not hired an actuary to determine its net pension liability (asset) to meet the requirements for financial reporting under GASB Statement 68.

Recommendation: We recommend the City Council encourage the Fire Relief Association to obtain an actuarial study to determine its net pension liability (asset) for inclusion in the City's financial statements.

City's Response: *The City will encourage the Fire Relief Association to obtain an actuarial study to determine its net pension liability (asset) to stay in compliance with GASB Statement 68 for pensions offered to its retirees.*

CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED DECEMBER 31, 2020

Finding Number: 2020-001

Prior Years Audit Finding Numbers: 2006-001, 2019-001

Finding Title: Segregation of Duties

Name of Contact Person Responsible for Corrective Action: City Council and management.

Corrective Action Planned: The City of Vergas is aware of the segregation of duties issue. Due to limited staffing, segregation of duties is not always possible. Management will implement oversight procedures where and whenever possible.

Anticipated Completion Date: *Ongoing. The small size of the City limits the number of personnel available to perform separate duties, however, the City Council is aware of this situation and provides oversight and review.*

Finding Number: 2020-002

Prior Years Audit Finding Numbers: 2007-001, 2019-002

Finding Title: Internal Controls

Name of Contact Person Responsible for Corrective Action: Julie Lammers, City Clerk-Treasurer-Liquor Store Manager, and City Council

Corrective Action Planned: The City will formalize written documentation of their internal controls and the monitoring process to ensure the reliability of financial reporting and the effectiveness and efficiency of operations.

Anticipated Completion Date: *Ongoing. The City does have some written policies and continues to work on improving internal controls over financial reporting and compliance and the documentation of those controls.*

Finding Number: 2020-003

Prior Years Audit Finding Numbers: 2015-001, 2019-003

Finding Title: Accounting and Financial Reporting for Pensions

Name of Contact Person Responsible for Corrective Action: City Council and management

Corrective Action Planned: The City will encourage the Fire Relief Association to obtain an actuarial study to determine its net pension liability (asset) to stay in compliance with GASB Statement 68 for pensions offered to its retirees.

Anticipated Completion Date: *December 31, 2021.*

SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED DECEMBER 31, 2020

Prior Years Audit Finding Numbers: 2006-001, 2019-001

Finding Title: Segregation of Duties

Summary of Condition: Due to the limited number of personnel within the City, segregation of the accounting functions necessary to ensure adequate internal accounting control is not possible.

Summary of Corrective Action: Management is continually aware that segregation of duties is not adequate from an internal control point of view. The City Council continues to implement oversight procedures and monitor those procedures to determine if they are still effective.

Status: Not fully corrected.

Prior Years Audit Finding Numbers: 2007-001, 2019-002

Finding Title: Internal Controls

Summary of Condition: Internal controls over financial reporting and the safeguarding of assets against unauthorized acquisition, use, or disposition include controls related to financial reporting and operational objectives. The City does not have a process for monitoring to ensure the internal controls are effective.

Summary of Corrective Action: The City has begun to formalize written documentation of their internal controls and the monitoring process to ensure the reliability of financial reporting and the effectiveness and efficiency of operations.

Status: Not fully corrected.

Prior Years Audit Finding Numbers: 2015-001, 2019-003

Finding Title: Accounting and Financial Reporting for Pensions

Summary of Condition: The Governmental Accounting Standards Board (GASB) issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, which provides accounting and reporting standards for pensions offered to retirees. GASB 68 was first applicable to the City of Vergas for the year ended December 31, 2015. GASB Statement 68 has not yet been fully implemented by the City of Vergas as required. The City Fire Relief Association has not undergone an actuarial study to determine its net pension liability (asset).

Summary of Corrective Action: The City has encouraged the Fire Relief Association to obtain an actuarial study to determine its net pension liability (assets) for its inclusion in the City's financial statements.

Status: Not fully corrected.