

**CITY OF SCANDIA, MINNESOTA**  
**FINANCIAL STATEMENTS AND**  
**SUPPLEMENTARY INFORMATION**  
**YEAR ENDED DECEMBER 31, 2007**

**City of Scandia**  
**14727 209<sup>th</sup> Street North**  
**Scandia, Minnesota 55073**



**CITY OF SCANDIA, MINNESOTA  
TABLE OF CONTENTS  
DECEMBER 31, 2007**

**I. INTRODUCTORY SECTION**

Elected and Appointed Officials

**II. FINANCIAL SECTION**

Independent Auditors' Report	1
<b>Basic Financial Statements</b>	
Statement of Net Assets	3
Statement of Activities	4
Balance Sheet – Governmental Funds	6
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets – Governmental Activities	8
Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds	9
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities – Governmental Activities	11
Statement of Net Assets – Proprietary Funds	12
Statement of Revenues, Expenses, and Changes in Net Assets – Proprietary Funds	13
Statement of Cash Flows – Proprietary Funds	14
Statement of Net Assets – Fiduciary Fund	15
Notes to Basic Financial Statements	16
<b>Required Supplementary Information – Budgetary Comparison Information</b>	
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund	33
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Road and Bridge Special Revenue Fund	35
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Fire Special Revenue Fund	36
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Police Special Revenue Fund	37
Notes to Required Supplementary Information	38



**CITY OF SCANDIA, MINNESOTA  
TABLE OF CONTENTS (CONTINUED)  
DECEMBER 31, 2007**

<b>Combining Fund Financial Statements</b>	
Combining Balance Sheet – Nonmajor Governmental Funds	39
Combining Statement of Revenues, Expenditures and Changes in Fund Balance – Nonmajor Governmental Funds	41
Statement of Changes in Assets and Liabilities – Fiduciary Funds	43
<b>III. OTHER REQUIRED REPORTS</b>	
Report on Minnesota Legal Compliance	44
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	45



**I.**  
**INTRODUCTORY**  
**SECTION**



**CITY OF SCANDIA, MINNESOTA  
ELECTED AND APPOINTED OFFICIALS  
DECEMBER 31, 2007**

<b>Elected</b>	<b>Position</b>
Dennis Seefeldt	Mayor
Dolores Peterson	Council Member
Pete Crum	Council Member
Michael Harnetty	Council Member
Donnette Yehle	Council Member
<hr/> <b>Appointed</b> <hr/>	
Colleen Firkus	Treasurer
Brenda Eklund	Deputy Clerk
Anne Hurlburt	Administrator



**II.**  
**FINANCIAL**  
**SECTION**



# LarsonAllen<sup>LLP</sup>

CPAs, Consultants & Advisors  
www.larsonallen.com

## INDEPENDENT AUDITORS' REPORT

Honorable Mayor  
Members of the City Council and Citizens  
City of Scandia, Minnesota

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Scandia, Minnesota as of and for the year ended December 31, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

Because of the inadequacy of accounting records related to capital assets of governmental activities, we were unable to form an opinion regarding the amounts at which capital assets of governmental activities are recorded in the accompanying statement of net assets at December 31, 2007.

Also, the City has not maintained detailed capital asset records and has not computed depreciation on governmental activity assets. All capital expenditures should be capitalized and depreciated over their estimated useful lives to conform with accounting principles generally accepted in the United States of America. The effects on the financial statements of the preceding practices are not reasonably determinable.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had the governmental activities capital assets records been subjected to audit procedures and not providing an adequate allowance for depreciation and expense for the governmental activities as described in the preceding paragraphs, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Scandia, Minnesota as of December 31, 2007, and the respective changes in financial position and cash flows, where applicable, thereof and for the year then ended in conformity with U.S. generally accepted accounting principles.



Honorable Mayor  
Members of the City Council and Citizens  
City of Scandia

In accordance with *Government Auditing Standards*, we have also issued a report dated May 27, 2008 on our consideration of the City of Scandia, Minnesota's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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* and should be considered in assessing the results of our audit.

The budgetary comparison information as listed in the table of contents is not a required part of the basic financial statements but supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The City of Scandia has not presented the management's discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying supplementary information, such as the introductory section and combining fund financial statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information, except for the introductory section on which we express no opinion, has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

  
**LarsonAllen LLP**

Minneapolis, Minnesota  
May 27, 2008

## **BASIC FINANCIAL STATEMENTS**



**CITY OF SCANDIA, MINNESOTA  
STATEMENT OF NET ASSETS  
DECEMBER 31, 2007**

	Governmental Activities	Business-Type Activities	Totals
<b>ASSETS</b>			
Cash and Investments	\$ 1,448,573	\$ 143,211	\$ 1,591,784
Cash in Escrow	664,426	-	664,426
Receivables:			
Taxes and Other	133,775	-	133,775
Special Assessments	371,075	3,357	374,432
Unamortized Issue Costs	10,507	-	10,507
Capital Assets, Unaudited	5,936,973	960,000	6,896,973
Total Assets	8,565,329	1,106,568	9,671,897
<b>LIABILITIES</b>			
Accounts and Contracts Payable	114,790	25,044	139,834
Salaries and Wages Payable	30,801	-	30,801
Interest Payable	20,624	-	20,624
Deferred Revenues	6,715	-	6,715
Noncurrent Liabilities:			
Due Within One Year	1,471,167	-	1,471,167
Due in More Than One Year	2,081,248	-	2,081,248
Total Liabilities	3,725,345	25,044	3,750,389
<b>NET ASSETS</b>			
Invested in Capital Assets, Net of Related Debt	3,769,742	960,000	4,729,742
Restricted for Debt Retirement	1,374,293	-	1,374,293
Unrestricted	(304,051)	121,524	(182,527)
Total Net Assets	\$ 4,839,984	\$ 1,081,524	\$ 5,921,508

See accompanying Notes to Basic Financial Statements.

**CITY OF SCANDIA, MINNESOTA  
STATEMENT OF ACTIVITIES  
YEAR ENDED DECEMBER 31, 2007**

FUNCTIONS/PROGRAMS	Expenses	Program Revenues		
		Charges for Service	Operating Grants and Contributions	Capital Grants and Contributions
<b>Government Activities:</b>				
General Government	\$ 532,636	\$ 142,561	\$ 16,500	\$ -
Public Safety	325,752	25,066	-	-
Public Works	51,365	47,677	-	-
Roads and Bridges	565,080	407,658	-	354,151
Parks and Recreation	89,563	27,012	-	-
Fixed and Other	10,310	5,455	-	-
Interest and Fiscal Charges	119,792	-	-	-
Total Governmental Activities	<u>1,694,498</u>	<u>655,429</u>	<u>16,500</u>	<u>354,151</u>
<b>Business-Type Activities:</b>				
Sewer	<u>70,081</u>	<u>22,024</u>	<u>-</u>	<u>13,903</u>
Total Primary Government	<u>\$ 1,764,579</u>	<u>\$ 677,453</u>	<u>\$ 16,500</u>	<u>\$ 368,054</u>

**GENERAL REVENUES**

Taxes:

  Property Taxes, Levied for General Purposes

  Grants and Contributions not Restricted for a Particular Purpose

  Investment Earnings

    Total General Revenues

**CHANGE IN NET ASSETS**

Net Assets - Beginning of Year

**NET ASSETS - END OF YEAR**

See accompanying Notes to Basic Financial Statements.

Net (Expense) Revenue and  
Changes in Net Assets

Governmental Activities	Business-Type Activities	Total
\$ (373,575)	\$ -	\$ (373,575)
(300,686)	-	(300,686)
(3,688)	-	(3,688)
196,729	-	196,729
(62,551)	-	(62,551)
(4,855)	-	(4,855)
(119,792)	-	(119,792)
<u>(668,418)</u>	<u>-</u>	<u>(668,418)</u>
-	(34,154)	(34,154)
(668,418)	(34,154)	(702,572)
1,487,406	-	1,487,406
102,508	-	102,508
87,984	4,948	92,932
<u>1,677,898</u>	<u>4,948</u>	<u>1,682,846</u>
1,009,480	(29,206)	980,274
<u>3,830,504</u>	<u>1,110,730</u>	<u>4,941,234</u>
<u>\$ 4,839,984</u>	<u>\$ 1,081,524</u>	<u>\$ 5,921,508</u>

**CITY OF SCANDIA, MINNESOTA  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2007**

	General Fund	Special Revenue		
		Road and Bridge	Fire	Police
<b>ASSETS</b>				
Cash and Investments	\$ -	\$ 185,343	\$ 33,837	\$ 47,967
Investments in Escrow	-	-	-	-
Taxes Receivables	10,260	23,338	9,427	4,023
Special Assessments Receivable	-	-	-	-
Other Receivables	42,636	9,811	-	-
Due from Other Funds	-	-	12,552	-
<b>Total Assets</b>	<b>\$ 52,896</b>	<b>\$ 218,492</b>	<b>\$ 55,816</b>	<b>\$ 51,990</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts and Contracts Payable	\$ 17,422	\$ 39,884	\$ 3,300	\$ 47,137
Accrued Payroll, Taxes and Benefits	97	-	30,704	-
Deferred Revenue	3,143	4,990	3,003	1,302
Due to Other Funds	12,552	-	-	-
<b>Total Liabilities</b>	<b>33,214</b>	<b>44,874</b>	<b>37,007</b>	<b>48,439</b>
<b>Fund Balances:</b>				
Reserved for Debt Service	-	-	-	-
Unreserved, Designated for Capital Improvements	-	-	-	-
Unreserved, Undesignated	19,682	173,618	18,809	3,551
<b>Total Fund Balances</b>	<b>19,682</b>	<b>173,618</b>	<b>18,809</b>	<b>3,551</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 52,896</b>	<b>\$ 218,492</b>	<b>\$ 55,816</b>	<b>\$ 51,990</b>

See accompanying Notes to Basic Financial Statements.

Debt Service				
2002 Improvement Bond	2004 Improvement Bond	2007 Improvement Capital Projects	Nonmajor Governmental Funds	Totals
\$ 345,592	\$ 219,068	\$ 51,710	\$ 565,056	\$ 1,448,573
-	664,426	-	-	664,426
2,610	8,427	-	13,526	71,611
1,139	84,092	285,844	-	371,075
-	-	9,352	365	62,164
-	-	-	-	12,552
<u>\$ 349,341</u>	<u>\$ 976,013</u>	<u>\$ 346,906</u>	<u>\$ 578,947</u>	<u>\$ 2,630,401</u>
\$ -	\$ -	\$ -	\$ 7,047	\$ 114,790
-	-	-	-	30,801
2,610	85,632	285,844	11,488	398,012
-	-	-	-	12,552
<u>2,610</u>	<u>85,632</u>	<u>285,844</u>	<u>18,535</u>	<u>556,155</u>
346,731	890,381	-	157,805	1,394,917
-	-	61,062	323,609	384,671
-	-	-	78,998	294,658
<u>346,731</u>	<u>890,381</u>	<u>61,062</u>	<u>560,412</u>	<u>2,074,246</u>
<u>\$ 349,341</u>	<u>\$ 976,013</u>	<u>\$ 346,906</u>	<u>\$ 578,947</u>	<u>\$ 2,630,401</u>



**CITY OF SCANDIA, MINNESOTA  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS  
GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2007**

**TOTAL FUND BALANCES FOR GOVERNMENTAL FUNDS** **\$ 2,074,246**

Total net assets reported for governmental activities in the statement of net assets is different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. These capital assets consist of:

Land	\$ 702,500	
Construction in Progress	1,464,379	
Buildings	1,966,800	
Furniture and Fixtures	372,362	
Equipment	398,649	
Miscellaneous Assets	419,438	
Vehicles	<u>612,845</u>	5,936,973

Some receivables, including special assessments, are reported as deferred revenue in the fund financial statements but are recognized as revenue when earned in the government-wide statements. These deferred revenues consist of:

Special Assessments on Tax Roll	23,548	
Other Special Assessments	<u>367,749</u>	391,297

Bond issuance costs are reported as expenditures in the governmental funds and are shown net of accumulated amortization on the statement of net assets as prepaid items. 10,507

Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds. These liabilities consist of:

General Obligation Debt Payable	(3,552,415)	
Accrued Interest on Long-Term Debt	<u>(20,624)</u>	<u>(3,573,039)</u>

**TOTAL NET ASSETS OF GOVERNMENTAL ACTIVITIES** **\$ 4,839,984**

**CITY OF SCANDIA, MINNESOTA**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**GOVERNMENTAL FUNDS**  
**YEAR ENDED DECEMBER 31, 2007**

	Special Revenue			
	General Fund	Road and Bridge	Fire	Police
<b>REVENUES</b>				
Taxes	\$ 220,125	\$ 566,061	\$ 198,567	\$ 84,141
Special Assessments	-	-	-	-
Intergovernmental Revenue	15,280	58,705	36,927	1,879
Licenses and Permits	76,977	-	-	-
Charges for Services	56,728	74,550	21,516	-
Fines and Forfeits	8,470	-	-	1,104
User Fees	-	-	-	-
Miscellaneous Revenue	19,757	19,080	9,014	1,952
Total Revenues	<u>397,337</u>	<u>718,396</u>	<u>266,024</u>	<u>89,076</u>
<b>EXPENDITURES</b>				
<b>Current:</b>				
General Government	457,301	-	-	-
Public Safety	-	-	257,465	95,589
Roads and Bridges	-	565,080	-	-
Public Works	29,624	-	-	-
Parks and Recreation Center	-	-	-	-
Fixed and Other	16,328	-	-	-
<b>Debt Service:</b>				
Principal Payments	-	-	20,000	-
Interest Payments	-	-	1,140	-
Capital Outlay	-	-	-	-
Total Expenditures	<u>503,253</u>	<u>565,080</u>	<u>278,605</u>	<u>95,589</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	(105,916)	153,316	(12,581)	(6,513)
<b>OTHER FINANCING SOURCES (USES)</b>				
Issuance of Bonds	-	-	-	-
Discount on Bond Issuance	-	-	-	-
Transfer in	-	-	28,700	-
Transfer out	-	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>28,700</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCES</b>	(105,916)	153,316	16,119	(6,513)
Fund Balances - Beginning of Year	<u>125,598</u>	<u>20,302</u>	<u>2,690</u>	<u>10,064</u>
<b>FUND BALANCES - END OF YEAR</b>	<u>\$ 19,682</u>	<u>\$ 173,618</u>	<u>\$ 18,809</u>	<u>\$ 3,551</u>

See accompanying Notes to Basic Financial Statements.

Debt Service				
2002	2004	2007	Nonmajor	Total
Improvement	Improvement	Improvement	Governmental	Governmental
Bond	Bond	Capital Projects	Funds	Funds
\$ (137)	\$ 144,830	\$ -	\$ 271,271	\$ 1,484,858
39,141	47,677	64,584	-	151,402
-	5,152	294,745	7,891	420,579
-	-	-	-	76,977
-	-	-	11,184	163,978
-	-	-	-	9,574
-	-	-	55,983	55,983
16,689	30,264	10,381	62,013	169,150
<u>55,693</u>	<u>227,923</u>	<u>369,710</u>	<u>408,342</u>	<u>2,532,501</u>
-	-	-	6,558	463,859
-	-	-	-	353,054
-	-	-	-	565,080
-	-	-	8,439	38,063
-	-	-	112,230	112,230
-	-	-	-	16,328
195,000	240,000	-	111,000	566,000
13,218	47,980	11,120	79,373	152,831
-	-	1,464,379	-	1,464,379
<u>208,218</u>	<u>287,980</u>	<u>1,475,499</u>	<u>317,600</u>	<u>3,731,824</u>
(152,525)	(60,057)	(1,105,789)	90,742	(1,199,323)
-	-	1,430,000	-	1,430,000
-	-	(33,460)	-	(33,460)
-	-	-	32,178	60,878
-	-	(32,178)	(28,700)	(60,878)
-	-	<u>1,364,362</u>	<u>3,478</u>	<u>1,396,540</u>
(152,525)	(60,057)	258,573	94,220	197,217
499,256	950,438	(197,511)	466,192	1,877,029
<u>\$ 346,731</u>	<u>\$ 890,381</u>	<u>\$ 61,062</u>	<u>\$ 560,412</u>	<u>\$ 2,074,246</u>

**CITY OF SCANDIA, MINNESOTA  
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES  
GOVERNMENTAL ACTIVITIES  
YEAR ENDED DECEMBER 31, 2007**

**NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS** **\$ 197,217**

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital Outlays Reported in Governmental Fund Statements	\$ 1,535,807	
Contributed Assets	6,610	
Loss on disposal of capital asset	(74,299)	
Proceeds from sale of capital assets	<u>(33,820)</u>	1,434,298

Receivables not currently available are reported as deferred revenue in the fund financial statements, but are recognized as revenue when earned in the government-wide statements. 205,297

The governmental funds report bond proceeds as financing sources, while repayment of bond principal is reported as an expenditure. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities and repayment of principal reduces the liability. Also, governmental funds report the effect of issuance costs, premiums and discounts when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. Interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, however, interest expense recognized as it accrues, regardless of when it is due. The net effect of these differences in the treatment of general obligation bonds and related items is as follows:

Issuance of General Obligation Bonds	(1,430,000)	
Bond Discount	33,460	
Bond Issuance Costs	11,120	
Repayment of Bond Principal	566,000	
Change in Accrued Interest Expense	4,376	
Amortization of Bond Issue Costs	(613)	
Amortization of Bond Discount	<u>(1,844)</u>	(817,501)

In the statement of activities, compensated absences are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (especially, the amounts actually paid). During the year the balance of compensated absences payable increased. (9,831)

**CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES** **\$ 1,009,480**

**CITY OF SCANDIA, MINNESOTA  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
DECEMBER 31, 2007**

	<u>Sewer Enterprise Fund</u>
<b>ASSETS</b>	
<b>Current Assets:</b>	
Cash and Investments	\$ 143,211
Special Assessments Receivable	<u>3,357</u>
Total Current Assets	<u>146,568</u>
 <b>Noncurrent Assets:</b>	
Capital Assets:	
Collection Systems	1,500,000
Less: Accumulated Depreciation	<u>(540,000)</u>
Total Capital Assets	<u>960,000</u>
Total Assets	<u><u>\$ 1,106,568</u></u>
 <b>LIABILITIES</b>	
<b>Current Liabilities:</b>	
Accounts Payable	\$ 25,044
 <b>NET ASSETS</b>	
Invested in Capital Assets, Net of Related Debt	960,000
Unrestricted	<u>121,524</u>
Total Net Assets	<u>1,081,524</u>
Total Liabilities and Net Assets	<u><u>\$ 1,106,568</u></u>

See accompanying Notes to Basic Financial Statements.

**CITY OF SCANDIA, MINNESOTA**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**  
**PROPRIETARY FUNDS**  
**YEAR ENDED DECEMBER 31, 2007**

	<u>Sewer Enterprise Fund</u>
<b>OPERATING REVENUES</b>	
Charges for Services	\$ 35,927
<b>OPERATING EXPENSES</b>	
Depreciation	30,000
Utilities	5,159
Maintenance and Other	<u>34,922</u>
Total Operating Expenses	<u>70,081</u>
<b>OPERATING LOSS</b>	(34,154)
<b>NONOPERATING REVENUE</b>	
Interest Revenue	<u>4,948</u>
<b>CHANGE IN NET ASSETS</b>	(29,206)
Net Assets - Beginning of Year	<u>1,110,730</u>
<b>NET ASSETS - END OF YEAR</b>	<u><u>\$ 1,081,524</u></u>

See accompanying Notes to Basic Financial Statements.

**CITY OF SCANDIA, MINNESOTA  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
YEAR ENDED DECEMBER 31, 2007**

	<u>Sewer Enterprise Fund</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash Received from Customers	\$ 43,570
Cash Paid to Suppliers for Goods and Services	<u>(20,076)</u>
Net Cash Provided by Operating Activities	23,494
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest on Investments	<u>4,948</u>
 <b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	28,442
Cash and Cash Equivalents - Beginning of Year	<u>114,769</u>
 <b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u><u>\$ 143,211</u></u>
 <b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	
Operating Income (Loss)	\$ (34,154)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:	
Depreciation Expense	30,000
Changes in Asset and Liability Accounts:	
Decrease in Special Assessments Receivable	7,643
Increase in Accounts Payable	<u>20,005</u>
Net Cash Provided by Operating Activities	<u><u>\$ 23,494</u></u>

See accompanying Notes to Basic Financial Statements.

**CITY OF SCANDIA, MINNESOTA  
STATEMENT OF NET ASSETS  
FIDUCIARY FUND  
YEAR ENDED DECEMBER 31, 2007**

	<u>Agency Fund</u>
<b>ASSETS</b>	
<b>Current Assets:</b>	
Cash and Investments	<u>\$ 55,777</u>
 <b>LIABILITIES</b>	
<b>Current Liabilities:</b>	
Contractor Deposits	<u>\$ 55,777</u>

*See accompanying Notes to Basic Financial Statements.*

**CITY OF SCANDIA, MINNESOTA  
NOTES TO BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2007**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

City of Scandia is a public corporation formed under Minnesota Statute 412. As such, the City is under statutory city regulations and applicable statutory guidelines.

The basic financial statements of the City have been prepared in conformity with U.S. generally accepted accounting principles as applied to governmental units by the Governmental Accounting Standards Board (GASB). The following is a summary of the significant accounting policies:

**A. FINANCIAL REPORTING ENTITY**

As required by U.S. generally accepted accounting principles, the financial statements of the reporting entity include those of the City of Scandia and its component units. A component unit is a legally separate entity for which the primary government is financially accountable, or for which the exclusion of the component unit would render the financial statements of the primary government misleading. The criteria used to determine if the primary government is financially accountable for a component include whether or not the primary government appoints the voting majority of the potential component unit's Council, is able to impose its will on the potential component unit, is in a relationship of financial benefit or burden with the potential component unit, or is fiscally depended upon by the potential component unit.

COMPONENT UNITS

The City's basic financial statements include all funds, departments, agencies, boards, commissions, and other organizations over which City officials exercise oversight responsibility.

Component units are legally separate entities for which the City (primary government) is financially accountable, or for which the exclusion of the component unit would render the financial statements of the Primary Government misleading. The criteria used to determine if the Primary Government is financially accountable for a component unit include whether or not the Primary Government appoints the voting majority of the potential component unit's governing body, is able to impose its will on the potential component unit, is in a relationship of financial benefit or burden with the potential component unit, or is fiscally depended upon by the potential component unit.

Based on these criteria, there are no organizations considered to be component units of the City.

**CITY OF SCANDIA, MINNESOTA  
NOTES TO BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2007**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**B. BASIC FINANCIAL STATEMENTS**

**1. Government-Wide Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) display information about the primary government. These statements include the financial activities of the overall City government, except for fiduciary 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. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's enterprise funds and various other functions of government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

In the government-wide statement of net assets, 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 assets are reported in three parts: (1) invested in capital assets, net of related debt; (2) restricted net assets; and (3) unrestricted net assets. 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 activity are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. Program revenues include: (1) fees, fines, and charges 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.

**2. Fund Financial Statements**

The fund financial statements provide information about the City's funds, including its fiduciary funds. Separate statements for each fund category (governmental, proprietary, and fiduciary) 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. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

**CITY OF SCANDIA, MINNESOTA  
NOTES TO BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2007**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**B. BASIC FINANCIAL STATEMENTS (CONTINUED)**

**2. Fund Financial Statements (Continued)**

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 subsidies and investment earnings, result from nonexchange transactions or incidental activities.

The City reports the following major governmental funds:

General Fund

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

Road and Bridge Fund

The road and bridge fund accounts for road and bridge maintenance and improvement.

Fire Fund

The fire fund accounts for fire activities.

Police Fund

The police fund accounts for police activities.

2007 Improvement Capital Projects Fund

This fund records all revenues and expenditures related to 2007 infrastructure improvement projects within the City, except those projects paid from business type activities (enterprise funds).

2002 and 2004 Debt Service Funds

These debt service funds account for debt service payments used to finance the City's various improvement projects.

The City reports the following major proprietary fund:

Sewer Fund

The sewer fund accounts for customer sewer service charges that are used to finance sewer operating expenses.

**CITY OF SCANDIA, MINNESOTA  
NOTES TO BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2007**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**B. BASIC FINANCIAL STATEMENTS (CONTINUED)**

2. Fund Financial Statements (Continued)

Additionally, the City reports the following fiduciary fund:

Agency Fund

To account for assets held as an agent for individuals, private organizations, other governmental units, and/or other funds. The City's agency fund accounts for pass-through contractor's deposits relating to prospective developments.

**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. Agency funds, which are included in the Fiduciary Funds, do not have a measurement focus. 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.

Private-sector standards of accounting and financial reporting issued on or before November 30, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

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 all revenues to be available if they are collected within 60 days after the end of the current period. Property and other taxes, licenses, 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 and acquisitions under capital leases are reported as other financing sources.

**CITY OF SCANDIA, MINNESOTA  
NOTES TO BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2007**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (CONTINUED)**

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.

Amounts reported as program revenues include: 1. Charges to customers or applicants for goods, services, or privileges provided, 2. operating grants and contributions, and 3. capital grants and contributions, including special assessments.

Proprietary funds distinguish operating revenues and expenses from nonoperating item. Operating revenues and expenses generally result from providing services and producing and delivering goods in connections with a proprietary fund's principal ongoing operations. The principal operating revenue of the City's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**D. BUDGETS**

Budgets are adopted on a basis consistent with U.S. generally accepted accounting principles. Annual appropriated budgets are adopted for the General Fund and Major Special Revenue Funds. Budgeted expenditure appropriations lapse at year-end.

**E. CASH AND INVESTMENTS**

Cash and investment balances from all funds are pooled and invested to the extent available in investments authorized by Minnesota Statutes. Earnings from investments are allocated to individual funds on the basis of the fund's equity in the cash and investment pool.

The City provides temporary advances to funds that have insufficient cash balances by means of an advance from another fund shown as interfund receivables in the advancing fund in the governmental fund financial statements, and an interfund payable in the fund with the deficit, until adequate resources are received. These interfund payables are eliminated for statement of net assets presentation.

Investments are stated at fair value as of the balance sheet date. Interest earnings are accrued at the balance sheet date.

For purposes of the statement of cash flows the Proprietary Fund considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. All of the cash and investments allocated to the proprietary fund types have original maturities of 90 days or less. Therefore, the entire balance in such fund types is considered cash equivalents.

**CITY OF SCANDIA, MINNESOTA  
NOTES TO BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2007**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**F. PREPAID ITEMS**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepayments. Prepaid items are reported using the consumption method and recorded as an expense or expenditure at the time of consumption. That portion of the relevant funds' balances equal to material prepaid items has been reserved.

**G. PROPERTY TAX CREDITS**

Property taxes on homestead property (as defined by State Statutes) are partially reduced by property tax credits. These credits are paid to the City by the State in lieu of taxes levied against homestead property. The State remits these credits through installments each year. These credits are recognized as revenue by the City at the time of collection.

**H. PROPERTY TAX REVENUE RECOGNITION**

The City Council annually adopts a tax levy and certifies it to the County in December (levy/assessment date) of each year for collection in the following year. The County is responsible for billing and collecting all property taxes for itself, the City, the local School District and other taxing authorities. Such taxes become a lien on January 1 and are recorded as receivables by the City at that date. Real property taxes are payable (by property owners) on May 15 and October 15 of each calendar year. Personal property taxes are payable by taxpayers on February 28 and June 30 of each year. These taxes are collected by the County and remitted to the City on or before July 15 and December 15 of the same year. Delinquent collections for November and December are received the following January. The City has no ability to enforce payment of property taxes by property owners. The County possesses this authority.

Within the governmental fund financial statements, the City recognizes property tax revenue when it becomes both measurable and available to finance expenditures of the current period. In practice, current and delinquent taxes and State credits received by the City in July, December and the following January are recognized as revenue for the current year. Taxes and credits not received at the year-end are classified as delinquent and due from County taxes receivable. The portion of delinquent taxes not collected by the City in January is fully offset by deferred revenue because it is not available to finance current expenditures. Deferred revenue in governmental activities is susceptible to full accrual on the government-wide statements.

**CITY OF SCANDIA, MINNESOTA  
NOTES TO BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2007**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**H. PROPERTY TAX REVENUE RECOGNITION (CONTINUED)**

The City's property tax revenue includes payments from the Metropolitan Revenue Distribution (Fiscal Disparities Formula) per *Minnesota Statute 473F*. This statute provides a means of spreading a portion of the taxable valuation of commercial/industrial real property to various taxing authorities within the defined metropolitan area. The valuation "shared" is a portion of commercial/industrial property valuation growth since 1971. Property taxes paid to the City through this formula for 2007 totaled \$65,778. Receipt of property taxes from this "fiscal disparities pool" does not increase or decrease total tax revenue.

**I. SPECIAL ASSESSMENT REVENUE RECOGNITION**

Special assessments are levied against benefited properties for the cost or a portion of the cost of special assessment improvement projects in accordance with state statutes. These assessments are collectible by the City over a term of years usually consistent with the term of the related bond issue. Collection of annual installments (including interest) is handled by the County Auditor in the same manner as property taxes. Property owners are allowed to (and often do) prepay future installments without interest or prepayment penalties.

Within the fund financial statements, the revenue from special assessments is recognized by the City when it becomes measurable and available to finance expenditures of the current fiscal period. In practice, current and delinquent special assessments received by the City are recognized as revenue for the current year. Special assessments are collected by the County and remitted by December 31 (remitted to the City the following January) and are also recognized as revenue for the current year. All remaining delinquent, deferred and special deferred assessments receivable in governmental funding are completely offset by deferred revenues. Deferred revenue in governmental activities is susceptible to full accrual on the government-wide statements.

Once a special assessment roll is adopted, the amount attributed to each parcel is a lien upon that property until full payment is made or the amount is determined to be excessive by the City's City Council or court action. If special assessments are allowed to go delinquent, the property is subject to tax forfeit sale and the first proceeds of that sale (after costs, penalties and expenses of sale) are remitted to the City in payment of delinquent special assessments. Generally, the City will collect the full amount of its special assessments not adjusted by the City's City Council or court action. Pursuant to State Statutes, a property shall be subject to a tax forfeit sale after three years unless it is homesteaded, agricultural or seasonal recreational land in which event the property is subject to such sale after five years.

**CITY OF SCANDIA, MINNESOTA  
NOTES TO BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2007**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**J. CAPITAL ASSETS**

Capital assets, which include property, plant, equipment, and infrastructure assets are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The City has not adopted a capitalization policy threshold for determining additions but rather capitalizes all capital related expenditures at historical cost or estimated historical cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

The capital assets of the governmental activities are not depreciated. The capital assets of the Enterprise Funds are depreciated using the straight-line method over the estimated useful lives of the assets. The estimated useful life for the Sewer Plant is 50 years.

**K. COMPENSATED ABSENCES**

It is the City's policy to permit employees to accumulate earned but unused leave benefits. All leave pay is accrued on a per pay period basis and recorded in the government-wide financial statements. The current portion is calculated based on historical trends.

**L. LONG-TERM OBLIGATIONS**

In the entity-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bond issue costs, if material, are reported as deferred charges and amortized over the term of the related debt using the straight-line method.

In the governmental fund financial statements, bond premiums and discounts, as well as bond issue costs are recognized during the current period. The face amount of the debt issue is reported as on other financing source. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issue costs are reported as debt service expenditures.

**M. FUND BALANCE**

In the governmental fund financial statements, reservations of fund balance represent those portions of fund balance not appropriable for expenditure or legally restricted by outside parties for use for a specific purpose. Designated fund balances represent tentative plans for future use of financial resources that are subject to change.

**CITY OF SCANDIA, MINNESOTA  
NOTES TO BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2007**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**N. INTERFUND TRANSACTIONS**

Interfund services provided and used are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures or expenses in the fund that is reimbursed. All other interfund transactions are reported as transfers.

All interfund transactions are eliminated except for activity between governmental activities and business-type activities for presentation in the entity-wide statements of net assets and statements of activities.

**NOTE 2 DEPOSITS AND INVESTMENTS**

**A. DEPOSITS**

The City maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the statement of net assets and the balance sheet as "Cash and Investments." In accordance with Minnesota Statutes the City maintains deposits at financial institutions which are authorized by the City's City Council.

*Custodial Credit Risk* – Custodial credit risk for deposits is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk and follows Minnesota Statutes for deposits. Minnesota Statutes require that all deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by insurance or corporate surety bonds. Authorized collateral include: U.S. government treasury bills, notes, or bonds; issues of a U.S. government agency; general obligations of a state or local government rated "A" or better; revenue obligations of a state or local government rated "AA" or better; irrevocable standby letter of credit issued by a Federal Home Loan Bank; and time deposits insured by a federal agency. Minnesota Statutes require 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 depository.

The carrying value and bank balance of the City's deposits in banks at December 31, 2007 is \$1,647,561 and \$1,672,905, respectively, and were entirely covered by federal depository insurance or by surety bonds and collateral in accordance with Minnesota Statutes.

**CITY OF SCANDIA, MINNESOTA  
 NOTES TO BASIC FINANCIAL STATEMENTS  
 DECEMBER 31, 2007**

**NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)**

**B. INVESTMENTS**

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

- Direct obligations or obligations guaranteed by the United States or its agencies.
- Shares of investment companies registered under the Federal Investment Company Act of 1940 and received the highest credit rating, is rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of thirteen months or less
- General obligations rated "A" or better; revenue obligations rated "AA" or better
- General obligations of the Minnesota Housing Finance Agency rate "A" or better
- Bankers acceptances of United States banks eligible for purchase by the Federal Reserve System
- Commercial paper issued by United States banks corporations or their Canadian subsidiaries, of highest quality category by a least two nationally recognized rating agencies, and maturing in 270 days or less
- Guaranteed investment contracts guaranteed by United States commercial banks or domestic branches of foreign banks or United States insurance companies if similar debt obligations of the issuer or the collateral pledged by the issuer is in the top two rating categories
- Repurchase or reverse purchase agreement and securities lending agreements financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers

At December 31, 2007, the City's investment balances were as follows:

**Cash Investments Held by Trustee –**

Type	Amount
Mutual Fund	\$ 664,426

The above mutual funds invest in State and Local Government Securities. These investments are held by an escrow agent in accordance with escrow agreements established with the sale of the General Obligation Building Crossover Refunding Bonds, Series 2005A. The proceeds of this issue will be used to refund the 2009 through 2015 maturities of the City's General Obligation Improvement Bonds, Series 2000A.

**CITY OF SCANDIA, MINNESOTA  
NOTES TO BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2007**

**NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)**

**B. INVESTMENTS (CONTINUED)**

***Interest Rate Risk***

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The City's does not have a specific policy that addresses interest rate risk. The mutual fund investment held in escrow will mature in 2009 at the crossover refunding date.

***Credit Risk***

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. The City does not have a specific policy that addresses credit risk. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The mutual fund held in escrow is not rated.

***Custodial Credit Risk***

For an investment, custodial credit risk is the risk that, in the event of failure of the counterparty, the City will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The City's investment policy doesn't specifically address custodial credit risk.

**NOTE 3 CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2007 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental Activities:</b>				
Land	\$ 702,500	\$ -	\$ -	\$ 702,500
Construction In Progress	-	1,464,379	-	1,464,379
Buildings	1,966,800	-	-	1,966,800
Equipment	482,733	20,023	104,107	398,649
Vehicles	612,845	-	-	612,845
Furniture and Fixtures	318,359	58,015	4,012	372,362
Miscellaneous Assets	419,438	-	-	419,438
<b>Governmental Activities Capital Assets</b>	<b>\$ 4,502,675</b>	<b>\$ 1,542,417</b>	<b>\$ 108,119</b>	<b>\$ 5,936,973</b>
<b>Business-Type Activities:</b>				
<b>Sewer:</b>				
Plant	\$ 1,500,000	\$ -	\$ -	\$ 1,500,000
Less: Accumulated Depreciation	510,000	30,000	-	540,000
<b>Net Capital Assets - Sewer Utility</b>	<b>\$ 990,000</b>	<b>\$ (30,000)</b>	<b>\$ -</b>	<b>\$ 960,000</b>

**CITY OF SCANDIA, MINNESOTA  
NOTES TO BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2007**

**NOTE 4 CITY INDEBTEDNESS**

City indebtedness at December 31, 2007 is composed of the following:

	Issue Date	Final Maturity Date	Interest Rate	Original Issue	Balance 12/31/07
<b>Governmental Activities:</b>					
<b>General Obligation Bonds</b>					
2000 Improvement Bonds	2/1/2000	12/1/2015	4.50-5.70%	\$ 1,200,000	\$ 745,000
2002 Improvement Bonds	5/31/2002	2/1/2008	3.45-4.45%	925,000	205,000
2004 Improvement Bonds	6/15/2004	8/1/2009	2.05-3.3%	1,200,000	480,000
2005 Building Crossover Bonds	5/1/2005	12/1/2015	3.35-4.2%	685,000	685,000
2007 Improvement Bonds	5/1/2007	12/1/2017	3.65-4.1%	1,430,000	1,430,000
Certificates of Indebtedness	7/15/2003	7/15/2008	2.05-2.95%	10,000	20,000
Total Long-Term Debt				5,450,000	3,565,000
Unamortized Bond Discount				(33,460)	(31,616)
Severances Payable				N/A	19,031
Total				<u>\$ 5,416,540</u>	<u>\$ 3,552,415</u>

The following is a schedule of changes in City indebtedness for the year ended December 31, 2007:

	Balance 1/1/07	Issued	Retired	Balance 12/31/07	Amounts Due Within One Year
<b>Long-Term Debt</b>					
<b>Governmental Activities:</b>					
General Obligation Notes	\$2,701,000	\$1,430,000	\$ 566,000	\$ 3,565,000	\$ 1,460,000
Unamortized Bond Discount	-	(33,460)	1,844	(31,616)	-
Severance Payable	9,200	17,732	7,901	19,031	11,167
Total Long-Term Debt	<u>\$2,710,200</u>	<u>\$1,414,272</u>	<u>\$ 575,745</u>	<u>\$ 3,552,415</u>	<u>\$ 1,471,167</u>

All long-term bonded indebtedness outstanding at December 31, 2007 is backed by the full faith and credit of the City, including special assessment bond issues. For the governmental activities, compensated absences are generally liquidated by the general fund.

Minimum annual principal and interest payments required to retire long-term debt, not including compensated absences payable are as follows:

Year Ending December 31,	Principal	Interest	Total
2008	\$1,460,000	\$ 142,829	\$1,602,829
2009	460,000	80,098	540,098
2010	225,000	64,336	289,336
2011	230,000	56,123	286,123
2012	235,000	47,525	282,525
2013-2017	955,000	102,928	1,057,928
Total	<u>\$3,565,000</u>	<u>\$ 493,839</u>	<u>\$4,058,839</u>

**CITY OF SCANDIA, MINNESOTA  
NOTES TO BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2007**

**NOTE 4 CITY INDEBTEDNESS (CONTINUED)**

**Description and Restrictions of Long-Term Debt**

General Obligation Bonds – The bonds were issued for improvements or projects which benefited the City as a whole and are, therefore, repaid from ad valorem levies.

On May 1, 2007 the City issued \$1,430,000 of General Obligation Improvement Bonds, Series 2007A. The proceeds were used to fund the 2007 improvements projects.

The liability for compensated absences represents vested benefits earned by governmental fund employees through the end of the year which will be paid or used in future periods.

**NOTE 5 DEFINED BENEFIT PENSION PLANS – STATEWIDE**

**A. PLAN DESCRIPTION**

All full-time and certain part-time employees of the City are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the Public Employees Retirement Fund (PERF) which is a cost-sharing, multiple-employer retirement plan. This plan is established and administered in accordance with *Minnesota Statutes*, Chapter 353 and 356.

PERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan. All police officers, firefighters and peace officers who qualify for membership by statute are covered by the PEPFF.

PERA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by state statute, and vest after three years of credited service. The defined retirement 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 and Basic Plan members. The retiring member receives the higher of step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2% of average salary for each of the first 10 years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first 10 years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service.

**CITY OF SCANDIA, MINNESOTA  
NOTES TO BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2007**

**NOTE 5    DEFINED BENEFIT PENSION PLANS – STATEWIDE (CONTINUED)**

**A.    PLAN DESCRIPTION (CONTINUED)**

For PERF members hired prior to July 1, 1989 whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 65 for Basic and Coordinated members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for Coordinated members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

There are different types of annuities available to members upon retirement. A single-life annuity is a lifetime annuity that ceases upon the death of the retiree, no survivor annuity is payable. There are also various types of joint and survivor annuity options available which will be payable over joint lives. Members may also leave their contributions in the fund upon termination of public service in order to qualify for a deferred annuity at retirement age. Refunds of contributions are available at any time to members who leave public service, but before retirement benefits begin.

The benefit provisions stated in the previous paragraphs of this section are current provisions and apply to active plan participants. 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.

PERA issues a publicly available financial report that includes financial statements and required supplementary information for PERF. That report may be obtained on the internet at [www.mnpera.org](http://www.mnpera.org), by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088 or by calling (651) 296-7460 or 1-800-652-9026.

**B.    FUNDING POLICY**

*Minnesota Statutes* Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The City makes annual contributions to the pension plans equal to the amount required by state statutes. PERF Basic Plan members and Coordinated Plan members are required to contribute 9.10% and 5.75% respectively, of their annual covered salary in 2007. Contribution rates in the Coordinated Plan will increase in 2008 to 6.0%. The City is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan PERF members, and 6.25% for Coordinated Plan PERF members. Employer contribution rates for the Coordinated Plan will increase to 6.5% effectively January 1, 2008. The City's contributions to the Public Employees Retirement Fund for the years ended December 31, 2007, 2006, and 2005 were \$14,426, \$13,000, and \$10,000, respectively. The City's contributions were equal to the contractually required contributions for each year as set by state statute.

**CITY OF SCANDIA, MINNESOTA  
NOTES TO BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2007**

**NOTE 6    DEFINED CONTRIBUTION PENSION PLAN**

The council members of the City are covered by the Public Employees Defined Contribution Plan (PEDCP), a multiple-employer deferred compensation plan administered by the Public Employees Retirement Association of Minnesota (PERA). The PEDCP 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 the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes 5% of salary which is matched by the elected official's employer. 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 2% of employer contributions and twenty-five hundredths of one percent of the assets in each member's account annually.

Total employer and employee contributions made by the City during fiscal year 2007 were \$1,570.

**NOTE 7    COMMITMENTS AND CONTINGENCIES**

Fire Services – The City has entered into an agreement with the Capitol City Regional Firefighter's Association whereby the Association will provide the City with fire services. The contract remains in force until either party withdraws. Related expenditures for fiscal year 2007 were \$257,465.

Law Enforcement Services – The City has entered into an agreement with Washington County to provide law enforcement services for 2008. The agreement calls for the City to pay Washington County based on the actual costs associated with providing services under the agreement. Related expenditures for fiscal year 2007 were \$95,589.

**CITY OF SCANDIA, MINNESOTA  
NOTES TO BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2007**

**NOTE 8 DESIGNATIONS AND RESERVATIONS OF FUND BALANCE**

At December 31, 2007, the City had designated and reserved portions of its various fund balance through legal restriction and City Council authorization. Major fund balance appropriations at December 31, 2007 are shown on the various balance sheets as segregations of the fund balance. A summary of such designations and reservations are as follows:

	<u>Reserved for Debt Service</u>	<u>Designated For Capital Improvements</u>
Major Funds:		
2002 Improvement Bond	\$ 346,731	\$ -
2004 Improvement Bond	890,381	-
2007 Improvement Bond	-	61,062
Nonmajor Funds:		
Park	-	-
Community Center	-	-
Water Shed	-	-
2000 Fire Hall Bond	157,805	-
Capital Improvement	-	217,502
Park Capital Improvement	-	47,518
Equipment Replacement	-	34,507
Uptown Sewer	-	24,082
Total Governmental Fund Balances at December 31, 2007	<u>\$ 1,394,917</u>	<u>\$ 384,671</u>

**NOTE 9 INTERFUND RECEIVABLE AND PAYABLE**

Individual fund receivable and payable balances at December 31, 2007 are as follows:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
Governmental Activity:		
General Fund	\$ -	\$ 12,552
Fire Fund	12,552	-
	<u>\$ 12,552</u>	<u>\$ 12,552</u>

Interfund receivable and payable balances represent the elimination of negative cash between funds.

**CITY OF SCANDIA, MINNESOTA  
 NOTES TO BASIC FINANCIAL STATEMENTS  
 DECEMBER 31, 2007**

**NOTE 10 INTERFUND TRANSFERS**

Individual fund transfers for fiscal year 2007 are as follows:

	Transfer In	Transfer Out
Governmental Activity:		
Fire Fund	\$ 28,700	\$ -
2007 Improvement Bond Fund	-	32,178
2007 Improvement Debt Service Fund	32,178	-
Capital Improvement Fund	-	28,700
	\$ 60,878	\$ 60,878

During 2007, the City made routine interfund transfers to allocate financial resources to the funds that received benefit from services provided by another fund or to establish or close-out funds.

**NOTE 11 RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The City has entered into a joint powers agreement with the League of Minnesota Cities Insurance Trust (LMCIT) to protect the City in the event of a loss. The LMCIT is a public entity risk pool currently operating as a common risk management and insurance program for Minnesota cities. The agreement for formation of the LMCIT provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of reserved amounts for each insured event. The pool can make additional assessments to make the pool self –sustaining.

The City has determined that it is not possible to estimate the amount of such additional assessments, if any; however, they are not expected to be material to these financial statements. There have been no significant reductions in insurance coverage during 2007 and settlements have not exceeded insurance coverage for any of the past three fiscal years.



**REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON INFORMATION**

**CITY OF SCANDIA, MINNESOTA**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**GENERAL FUND**  
**YEAR ENDED DECEMBER 31, 2007**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Property Tax	\$ 227,135	\$ 227,135	\$ 220,125	\$ (7,010)
Intergovernmental:				
State Aid Credits	7,000	7,000	8,162	1,162
Recycling Grant	8,380	8,380	7,118	(1,262)
Total Intergovernmental Revenues	<u>15,380</u>	<u>15,380</u>	<u>15,280</u>	<u>(100)</u>
Licenses and Permits	150,250	150,250	76,977	(73,273)
Fines and Forfeits	-	-	8,470	8,470
Charges for Services:				
Zoning and Hearing Fees	14,000	14,000	51,273	37,273
Cable Franchise	5,000	5,000	5,455	455
Total Charges for Services	<u>19,000</u>	<u>19,000</u>	<u>56,728</u>	<u>37,728</u>
Miscellaneous:				
Interest	6,000	6,000	3,316	(2,684)
Donations and Other	4,075	4,075	16,441	12,366
Total Miscellaneous	<u>10,075</u>	<u>10,075</u>	<u>19,757</u>	<u>9,682</u>
Total Revenues	421,840	421,840	397,337	(24,503)
<b>EXPENDITURES</b>				
<b>General Government:</b>				
Town Boards and Commissions:				
Personal Services	18,485	18,485	17,448	1,037
Planner	13,700	13,700	10,016	3,684
Total Town Boards and Commissions	<u>32,185</u>	<u>32,185</u>	<u>27,464</u>	<u>4,721</u>
Finance and Other:				
Personal Services	95,275	95,275	186,026	(90,751)
Auditing and Accounting	24,245	24,245	27,511	(3,266)
Assessor	26,000	26,000	25,556	444
Legal	30,000	30,000	37,609	(7,609)
Total Finance and Other	<u>175,520</u>	<u>175,520</u>	<u>276,702</u>	<u>(101,182)</u>
General and Government Buildings:				
Building Inspections	105,000	105,000	35,832	69,168
Elections	500	500	295	205
Telephones	2,500	2,500	4,081	(1,581)
Parcel Searches and Hearing Fees	5,000	5,000	25,095	(20,095)
Incorporation Costs	-	-	13,193	(13,193)
Other	55,435	55,435	74,639	(19,204)
Total General and Government Buildings	<u>168,435</u>	<u>168,435</u>	<u>153,135</u>	<u>15,300</u>
Total General Government	376,140	376,140	457,301	(81,161)

**CITY OF SCANDIA, MINNESOTA**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL (CONTINUED)**  
**GENERAL FUND**  
**YEAR ENDED DECEMBER 31, 2007**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>EXPENDITURES (CONTINUED)</b>				
<b>Public Works:</b>				
Recycling	\$ 30,000	\$ 30,000	\$ 29,624	\$ 376
<b>Fixed and Other:</b>				
Insurance	5,300	5,300	6,018	(718)
Donations	5,500	5,500	5,250	250
Cable TV	4,900	4,900	5,060	(160)
Total Fixed and Other	<u>15,700</u>	<u>15,700</u>	<u>16,328</u>	<u>(628)</u>
Total Expenditures	<u>421,840</u>	<u>421,840</u>	<u>503,253</u>	<u>(81,413)</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ -</u>	<u>\$ -</u>	(105,916)	<u>\$ 56,910</u>
Fund Balance - Beginning of Year			<u>125,598</u>	
<b>FUND BALANCE - END OF YEAR</b>			<u>\$ 19,682</u>	

**CITY OF SCANDIA, MINNESOTA**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**ROAD AND BRIDGE SPECIAL REVENUE FUND**  
**YEAR ENDED DECEMBER 31, 2007**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Taxes	\$ 585,596	\$ 585,596	\$ 566,061	\$ (19,535)
Intergovernmental Revenue	48,000	48,000	58,705	10,705
Charges for Services	12,250	12,250	74,550	62,300
Miscellaneous Revenue	15,000	15,000	19,080	4,080
Total Revenues	<u>660,846</u>	<u>660,846</u>	<u>718,396</u>	<u>57,550</u>
<b>EXPENDITURES</b>				
<b>Current:</b>				
Highways and Streets	<u>660,846</u>	<u>660,846</u>	<u>565,080</u>	<u>95,766</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>\$ -</u>	<u>\$ -</u>	153,316	<u>\$ 153,316</u>
Fund Balances - Beginning of Year			<u>20,302</u>	
<b>FUND BALANCES - END OF YEAR</b>			<u>\$ 173,618</u>	

**CITY OF SCANDIA, MINNESOTA  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
FIRE SPECIAL REVENUE FUND  
YEAR ENDED DECEMBER 31, 2007**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Taxes	\$ 175,034	\$ 175,034	\$ 198,567	\$ 23,533
Intergovernmental Revenue	50,000	50,000	36,927	(13,073)
Charges for Services	21,516	21,516	21,516	-
Miscellaneous Revenue	4,800	4,800	9,014	4,214
Total Revenues	<u>251,350</u>	<u>251,350</u>	<u>266,024</u>	<u>14,674</u>
<b>EXPENDITURES</b>				
Current:				
Public Safety	270,050	270,050	257,465	12,585
Capital Outlay	10,000	10,000	-	10,000
Total Expenditures	<u>280,050</u>	<u>280,050</u>	<u>257,465</u>	<u>22,585</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>\$ (28,700)</u>	<u>\$ (28,700)</u>	8,559	<u>\$ 37,259</u>
Fund Balances - Beginning of Year			<u>2,690</u>	
<b>FUND BALANCES - END OF YEAR</b>			<u>\$ 11,249</u>	

**CITY OF SCANDIA, MINNESOTA  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
POLICE SPECIAL REVENUE FUND  
YEAR ENDED DECEMBER 31, 2007**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Taxes	\$ 86,850	\$ 86,850	\$ 84,141	\$ (2,709)
Intergovernmental Revenue	2,500	2,500	1,879	(621)
Fines and Forfeits	100	100	1,104	1,004
Miscellaneous Revenue	1,500	1,500	1,952	452
Total Revenues	<u>90,950</u>	<u>90,950</u>	<u>89,076</u>	<u>(1,874)</u>
<b>EXPENDITURES</b>				
Current:				
Public Safety	<u>90,950</u>	<u>90,950</u>	<u>95,589</u>	<u>(4,639)</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>\$ -</u>	<u>\$ -</u>	(6,513)	<u>\$ (6,513)</u>
Fund Balances - Beginning of Year			<u>10,064</u>	
<b>FUND BALANCES - END OF YEAR</b>			<u>\$ 3,551</u>	

**CITY OF SCANDIA, MINNESOTA**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**YEAR ENDED DECEMBER 31, 2007**

**STEWARDSHIP COMPLIANCE AND ACCOUNTABILITY - BUDGETS**

The General Fund and Special Revenue Fund budgets are legally adopted on a basis consistent with U.S. generally accepted accounting principles. Actual expenditures exceeded budgets during 2007 as follows:

	<u>Final Budget</u>	<u>Actual</u>	<u>Excess</u>
<b>General Fund</b>			
General Government:			
Finance and Other:			
Personal Services	\$ 95,275	\$ 186,026	\$ (90,751)
Auditing and Accounting	24,245	27,511	(3,266)
Legal	30,000	37,609	(7,609)
General and Government Buildings:			
Telephones	2,500	4,081	(1,581)
Parcel Searches and Hearing Fees	5,000	25,095	(20,095)
Incorporation Costs	-	13,193	(13,193)
Other	55,435	74,639	(19,204)
Fixed and Other:			
Insurance	5,300	6,018	(718)
Cable TV	4,900	5,060	(160)
<b>Police Special Revenue Fund</b>			
Public Safety	90,950	95,589	(4,639)



**COMBINING FUND FINANCIAL STATEMENTS**

**CITY OF SCANDIA, MINNESOTA  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
DECEMBER 31, 2007**

	Special Revenue			Debt Service	
	Park	Community Center	Water Shed	2000 Fire Hall Debt Service	2007 Improvement Debt Service
<b>ASSETS</b>					
Cash and Investments	\$ 57,732	\$ 14,621	\$ 15,360	\$ 154,672	\$ -
Taxes Receivable	1,880	1,269	597	5,619	-
Other Receivable	41	192	-	-	-
<b>Total Assets</b>	<b>\$ 59,653</b>	<b>\$ 16,082</b>	<b>\$ 15,957</b>	<b>\$ 160,291</b>	<b>\$ -</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>LIABILITIES</b>					
Accounts Payable	\$ 1,480	\$ 3,637	\$ -	\$ -	\$ -
Deferred Revenue	374	7,136	67	2,486	-
<b>Total Liabilities</b>	<b>1,854</b>	<b>10,773</b>	<b>67</b>	<b>2,486</b>	<b>-</b>
<b>FUND BALANCES</b>					
Reserved for Debt Service	-	-	-	157,805	-
Unreserved, Designated for Capital Improvements	-	-	-	-	-
Unreserved, Undesignated	57,799	5,309	15,890	-	-
<b>Total Fund Balance</b>	<b>57,799</b>	<b>5,309</b>	<b>15,890</b>	<b>157,805</b>	<b>-</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 59,653</b>	<b>\$ 16,082</b>	<b>\$ 15,957</b>	<b>\$ 160,291</b>	<b>\$ -</b>

**Capital Projects**

Capital Improvement	Park Capital Improvement	Equipment Replacement	Uptown Sewer	Total Nonmajor Funds
\$ 216,785	\$ 46,668	\$ 34,507	\$ 24,711	\$ 565,056
2,326	-	-	1,835	13,526
-	-	-	132	365
<u>\$ 219,111</u>	<u>\$ 46,668</u>	<u>\$ 34,507</u>	<u>\$ 26,678</u>	<u>\$ 578,947</u>
\$ -	\$ -	\$ -	\$ 1,930	\$ 7,047
759	-	-	666	11,488
<u>759</u>	<u>-</u>	<u>-</u>	<u>2,596</u>	<u>18,535</u>
-	-	-	-	157,805
217,502	47,518	34,507	24,082	323,609
850	(850)	-	-	78,998
<u>218,352</u>	<u>46,668</u>	<u>34,507</u>	<u>24,082</u>	<u>560,412</u>
<u>\$ 219,111</u>	<u>\$ 46,668</u>	<u>\$ 34,507</u>	<u>\$ 26,678</u>	<u>\$ 578,947</u>

**CITY OF SCANDIA, MINNESOTA  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCE  
 NONMAJOR GOVERNMENTAL FUNDS  
 YEAR ENDED DECEMBER 31, 2007**

	Special Revenue			Debt Service	
	Park	Community Center	Water Shed	2000 Fire Hall Bond	2007 Improvement Debt Service
<b>REVENUES</b>					
Taxes	\$ 46,444	\$ 26,179	\$ 16,537	\$ 98,253	\$ -
Intergovernmental Revenue	1,650	929	580	1,734	-
Charges for Services	11,184	-	-	-	-
User Fees	700	10,807	-	-	-
Miscellaneous Revenues	3,020	4,475	306	6,376	-
Total Revenues	<u>62,998</u>	<u>42,390</u>	<u>17,423</u>	<u>106,363</u>	<u>-</u>
<b>EXPENDITURES</b>					
Current:					
General Government	-	-	-	401	-
Public Works	-	-	-	-	-
Parks and Recreation Center	42,472	65,717	-	-	-
Debt Service:					
Principal Payments	-	-	-	75,000	-
Interest Payments	-	-	-	45,035	32,178
Total Expenditures	<u>42,472</u>	<u>65,717</u>	<u>-</u>	<u>120,436</u>	<u>32,178</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	20,526	(23,327)	17,423	(14,073)	(32,178)
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfer in	-	-	-	-	32,178
Transfer out	-	-	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>32,178</u>
<b>NET CHANGE IN FUND BALANCES</b>	20,526	(23,327)	17,423	(14,073)	-
Fund Balance - Beginning of Year	<u>37,273</u>	<u>28,636</u>	<u>(1,533)</u>	<u>171,878</u>	<u>-</u>
<b>FUND BALANCE - END OF YEAR</b>	<u>\$ 57,799</u>	<u>\$ 5,309</u>	<u>\$ 15,890</u>	<u>\$ 157,805</u>	<u>\$ -</u>

Capital Projects

Capital Improvement	Park Capital Improvement	Equipment Replacement	Uptown Sewer	Total Nonmajor Funds
\$ 48,190	\$ -	\$ -	\$ 35,668	\$ 271,271
1,717	-	-	1,281	7,891
-	-	-	-	11,184
-	42,000	-	2,476	55,983
8,139	1,097	34,507	4,093	62,013
<u>58,046</u>	<u>43,097</u>	<u>34,507</u>	<u>43,518</u>	<u>408,342</u>
6,157	-	-	-	6,558
-	-	-	8,439	8,439
-	4,041	-	-	112,230
-	-	-	36,000	111,000
-	-	-	2,160	79,373
<u>6,157</u>	<u>4,041</u>	<u>-</u>	<u>46,599</u>	<u>317,600</u>
51,889	39,056	34,507	(3,081)	90,742
-	-	-	-	32,178
<u>(28,700)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(28,700)</u>
<u>(28,700)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,478</u>
23,189	39,056	34,507	(3,081)	94,220
<u>195,163</u>	<u>7,612</u>	<u>-</u>	<u>27,163</u>	<u>466,192</u>
<u>\$ 218,352</u>	<u>\$ 46,668</u>	<u>\$ 34,507</u>	<u>\$ 24,082</u>	<u>\$ 560,412</u>

**CITY OF SCANDIA, MINNESOTA**  
**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES – FIDUCIARY FUNDS**  
**YEAR ENDED DECEMBER 31, 2007**

	Balance January 1, 2007	Additions	Deductions	Balance December 31, 2007
<b>ASSETS</b>				
Cash and Investments	\$ 16,000	\$ 41,300	\$ 1,523	\$ 55,777
<b>LIABILITIES</b>				
Contractor Deposits	\$ 16,000	\$ 41,300	\$ 1,523	\$ 55,777

**III.**

**OTHER REQUIRED REPORTS**

## REPORT ON MINNESOTA LEGAL COMPLIANCE

Honorable Mayor  
Members of the City Council and Citizens  
City of Scandia, Minnesota

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Scandia, Minnesota, which collectively comprise the City's basic financial statements as of and for the year ended December 31, 2007, and have issued our report thereon dated May 27, 2008.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government*, promulgated by the State Auditor pursuant to Minn. Stat. §6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Local Government* covers seven main categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous City provisions, and tax increment financing districts. Our study included all of the listed categories.

The results of our tests indicate that, with respect to the items tested, the City of Scandia, Minnesota complied with the material terms and conditions of applicable legal provisions.

This report is intended solely for the information and use of management, the Council, the Office of the State Auditor, and other state agencies, and is not intended to be and should not be used by anyone other than these specified parties.

  
**LarsonAllen LLP**

Minneapolis, Minnesota  
May 27, 2008

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

Honorable Mayor and  
Members of the City Council  
City of Scandia, Minnesota

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Scandia, Minnesota as of and for the year ended December 31, 2007, which collectively comprise the City's basic financial statements and have issued our report thereon dated May 27, 2008. The report on the governmental activities was qualified because we were unable to audit the governmental activities capital assets and the capital assets were not depreciated in accordance with U.S. generally accepted accounting principles. Except as discussed in the preceding sentences, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified the following deficiencies in internal control that we consider to be material weaknesses.

Honorable Mayor and  
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City of Scandia

### **Limited Segregation of Duties**

**Condition:** Due to the City's limited number of office personnel, segregation of the accounting functions that is necessary to ensure adequate internal accounting control may not be possible. This is not unusual in an operation the size of the City; however, the City Council should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an accounting point of view.

**Criteria:** Generally, a system of internal control contemplates separation of duties such that no individual has responsibility to execute a transaction, have physical access to the related assets, and have responsibility or authority to record the transaction.

**Effect:** The City is unable to maintain segregation of incompatible duties.

**Cause:** Limited number of personnel involved in the finance office.

**Recommendation:** This area should be reviewed periodically and consideration given to improving the segregation of duties. In making this review, it is most important to consider the benefit derived as weighed against the cost of the improvements. Management feels it is currently not economically feasible for the City to hire additional staff in order to adequately segregate all incompatible duties. Therefore, the City Council needs to be sufficiently involved in the oversight process and controls and responsibilities should be reviewed periodically.

### **Material Audit Adjustments and Immaterial Unrecorded Adjustments - Internal Control over the Financial Reporting Process**

**Condition:** The audit firm proposed, and the City posted to its general ledger accounts, 37 journal entries to correct misstatements. These entries relate to internal controls over the year-end close-out process. Additionally, management has determined that the effects of the unrecorded adjustments for differences in beginning taxes and special assessment receivables are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. Although the effects of the uncorrected misstatements are considered immaterial, the unrecorded amounts are, in our judgment, significant. The absence of a complete control procedure or process in this area is considered a material weakness because the potential exists that a material misstatement of the financial statements could occur and not be prevented or detected by the City's internal control processes.

**Criteria:** The City should have controls in place to prevent and detect a material misstatement in the financial statements in a timely manner. Management is responsible for the accuracy and completeness of all financial records and related information. Their responsibilities include adjusting the financial statements to correct material misstatements.

**Effect:** No effect on the financial statements.

**Cause:** The City has not established controls to ensure that all accounts are adjusted to their appropriate year-end balances in accordance with GAAP.

**Recommendation:** We recommend the City continue to evaluate its internal control processes to determine if additional internal control procedures should be implemented to ensure that accounts are adjusted to their appropriate year-end balances in accordance with GAAP. Additionally, we recommend that the City review these adjustments and modify year-end reconciling procedures in an effort to avoid similar adjustments next year.

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### **Payroll Disbursements**

**Condition:** As part of our audit procedures, we tested 25 payroll disbursements. During our testing, it was noted that one payroll disbursement selected did not agree to the employee's authorized wage and was overpaid. Additionally, one timecard reviewed did not include physical evidence of approval.

**Criteria:** Controls over the payroll disbursements process should be designed and implemented to prevent errors in payroll processing and to incorporate physical evidence of transaction approval.

**Effect:** No effect on the financial statements.

**Cause:** These discrepancies were the result of not adhering to payroll processing policies and procedures.

**Recommendation:** We recommend the City review their policies and procedures for the approval and disbursement of payroll and ensure the policy is being followed.

### **Capital Assets**

**Condition:** The City has not maintained detailed capital asset records and has not computed depreciation on governmental activity assets as required by U.S. generally accepted account principles (GAAP). As a result, the financial statements do not include auditable governmental activity capital assets and related depreciation.

**Criteria:** GASB Statement Number 34 requires capital asset and related depreciation to be recorded.

**Effect:** The financial statements do not contain required governmental capital asset information.

**Cause:** Governmental activities capital asset information has not been compiled due to limited City personnel and resources.

**Recommendation:** We recommend the City establish policies and procedures to maintain detailed capital asset records as required by GAAP.

### **Oversight of the Financial Reporting Process**

**Condition:** The City does not have an internal control policy in place over annual financial reporting under GAAP, therefore, the potential exists that a material misstatement of the annual financial statements could occur and not be prevented or detected by the City's internal controls.

**Criteria:** The City must be able to prevent or detect a material misstatement in the annual financial statements including footnote disclosures.

**Effect:** No effect on the financial statements.

**Cause:** The City relies on the audit firm to prepare the annual financial statements and related footnote disclosures. However, they have reviewed and approved the annual financial statements and related footnote disclosures.

**Recommendation:** The City should continue to evaluate their internal staff, expertise, and assigned duties to determine if an internal control policy over the annual financial reporting is beneficial.

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**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's 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*.

This report is intended solely for the information and use of the City Council, management, the Office of the State Auditor, and state and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

  
**LarsonAllen LLP**

Minneapolis, Minnesota  
May 27, 2008