

CITY OF SCANDIA, MINNESOTA
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
YEAR ENDED DECEMBER 31, 2010

City of Scandia
14727 209th Street North
Scandia, Minnesota 55073

**CITY OF SCANDIA, MINNESOTA
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YEAR ENDED DECEMBER 31, 2010**

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I.
INTRODUCTORY
SECTION

**CITY OF SCANDIA, MINNESOTA
ELECTED AND APPOINTED OFFICIALS
DECEMBER 31, 2010**

Elected	Position
Dennis Seefeldt	Mayor
Dolores Peterson	Council Member
Pete Crum	Council Member
Connie Amos	Council Member
John Lindell (Resigned 9/13/10)	Council Member
Chris Ness (Replaced John Lindell 10/22/10)	Council Member
<hr/> Appointed <hr/>	
Anne Hurlburt	Administrator
Colleen Firkus	Treasurer
Brenda Eklund	Deputy Clerk
Steve Thorp	Building Official/Maintenance Supervisor

II.
FINANCIAL
SECTION

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, 2010, 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.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Scandia, Minnesota as of December 31, 2010, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated May 5, 2011 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.

Honorable Mayor
Members of the City Council and Citizens

The management's discussion and analysis and 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 inquiries 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.

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, including 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.

Larson Allen LLP
LarsonAllen LLP

Minneapolis, Minnesota
May 5, 2011

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF SCANDIA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2010**

As management of the City, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2010.

Financial Highlights

- The City's net assets of its governmental activities increased by \$289,803 during the year to \$10,035,054 at year-end.
- The General Fund balance increased by \$293,262 during the year to \$1,098,653 at year-end.
- The net assets of the City's business-type activities (201 Sewer Enterprise Fund) decreased by \$2,935 during the year to \$1,057,568.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise 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, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets 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 City's net assets changed during the most recent fiscal year. All changes in net assets 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 and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, public works, parks and recreation, and other. The only business-type activities of the City are the sewer operations.

The government-wide financial statements can be found on pages 14-16 of this report.

**CITY OF SCANDIA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2010**

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, 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, governmental fund 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 by the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains several individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General Fund and 2007 Improvement Bond Fund. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in these financial statements.

The City adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 17-20 of this report.

Proprietary Funds. The *proprietary funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its business-type activities.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the 201 sewer operations. The 201 Sewer Enterprise Fund is considered to be a major fund of the City.

**CITY OF SCANDIA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2010**

Fund Financial Statements (Continued)

Proprietary Funds (Continued)

The basic proprietary fund financial statements can be found on pages 21-23 of this report.

Notes to Financial Statements

The notes 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 financial statements can be found on pages 25-42 of this report.

Other Information

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the notes to financial statements. Combining and individual fund statements and schedules can be found on pages 46-47 of this report.

Government-Wide Financial Analysis

Beginning with the year ended December 31, 2004, financial statements were presented in accordance with the requirements of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis-for State and Local Governments*. Comparative information is included in these tables to highlight changes in financial position, shown in Exhibits 1-2.

The government-wide statements report the City's net assets and how they have changed. Net assets, the difference between the City's assets and liabilities, are one way to measure the City's financial position. Over time, increases or decreases in the City's net assets can be used as an indicator of the City's financial position.

The City's financial position is the product of many factors. For example, the determination of the City's investment in capital assets, net of related debt involves many assumptions and estimates, such as current and accumulated depreciation amounts. A conservative versus a liberal approach to depreciation estimates, as well as capitalization policies, will produce a very significant difference in the calculated amounts. For these reasons, it is important to view the net assets balance as a starting point to evaluate future years' results, rather than to focus on the current balance.

**CITY OF SCANDIA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2010**

EXHIBIT 1: CITY OF SCANDIA'S NET ASSETS

	Governmental Activities		Business-Type Activities		Totals	
	2010	2009	2010	2009	2010	2009
Current and Other Assets	\$ 2,190,041	\$ 1,814,885	\$ 196,684	\$ 166,575	\$ 2,386,725	\$ 1,981,460
Capital Assets, Net	9,623,907	9,743,820	870,000	900,000	10,493,907	10,643,820
Total Assets	<u>11,813,948</u>	<u>11,558,705</u>	<u>1,066,684</u>	<u>1,066,575</u>	<u>12,880,632</u>	<u>12,625,280</u>
Current Liabilities	169,408	182,648	9,116	6,072	178,524	188,720
Long-Term Liabilities	1,609,486	1,630,806	-	-	1,609,486	1,630,806
Total Liabilities	<u>1,778,894</u>	<u>1,813,454</u>	<u>9,116</u>	<u>6,072</u>	<u>1,788,010</u>	<u>1,819,526</u>
Net Assets:						
Invested in Capital Assets						
Net of Related Debt	8,031,460	8,113,014	870,000	900,000	8,901,460	9,013,014
Restricted for Debt Retirement	509,529	453,952	-	-	509,529	453,952
Restricted for Road Maintenance	121,144	119,106	-	-	121,144	119,106
Unrestricted	1,372,921	1,059,179	187,568	160,503	1,560,489	1,219,682
Total Net Assets	<u>\$ 10,035,054</u>	<u>\$ 9,745,251</u>	<u>\$ 1,057,568</u>	<u>\$ 1,060,503</u>	<u>\$ 11,092,622</u>	<u>\$ 10,805,754</u>

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$11,092,622 at the close of the most recent fiscal year. The largest portion of the City's net assets (80%) reflects its investment in capital assets (e.g., land, buildings, machinery and equipment), less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The City's debt is repaid primarily through special assessments, property tax levies for debt of governmental activities and user charges provide the financing for the debt of the business-type activities.

An additional portion of the City's net assets (6%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (\$1,560,489) may be used to meet the City's ongoing obligations to citizens and creditors.

**CITY OF SCANDIA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2010**

EXHIBIT 2: CHANGES IN NET ASSETS

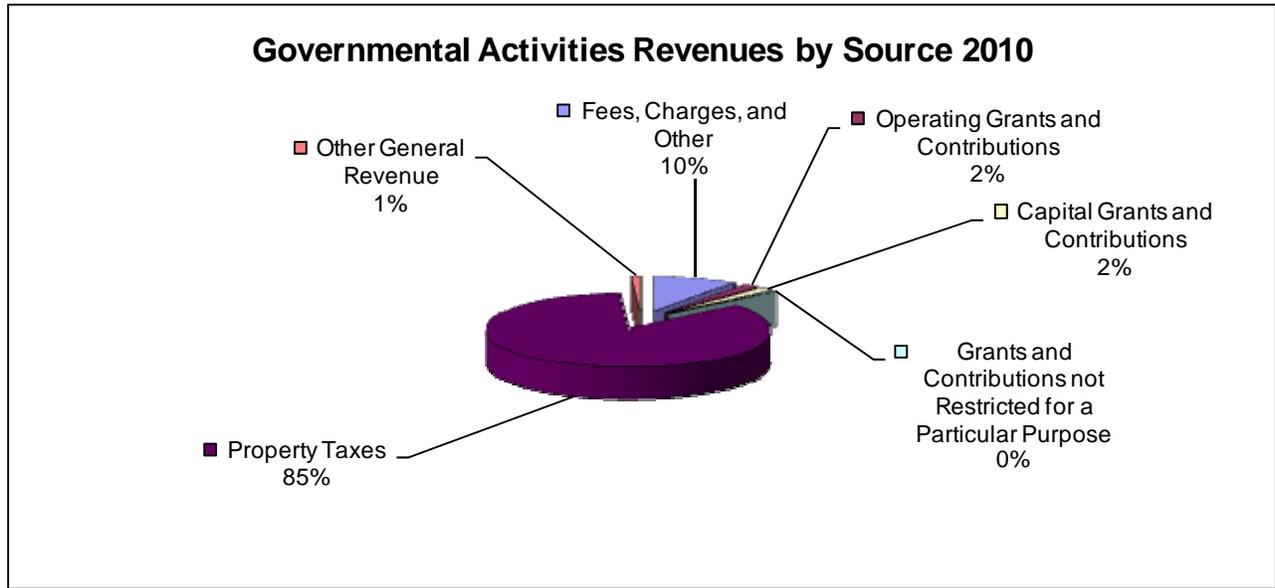
	Governmental Activities		Business-Type Activities		Totals	
	2010	2009	2010	2009	2010	2009
REVENUES						
<u>Program Revenues</u>						
Charges for Services	\$ 210,529	\$ 192,947	\$ 61,236	\$ 68,457	\$ 271,765	\$ 261,404
Operating Grants and Contributions	40,717	40,587	-	-	40,717	40,587
Capital Grants and Contributions	36,945	67,299	5,475	3,763	42,420	71,062
<u>General Revenues</u>						
Property Taxes	1,844,625	1,791,648	-	-	1,844,625	1,791,648
Grants and Contributions Not Restricted for a Particular Purpose	9,691	16,609	-	-	9,691	16,609
Other	22,022	21,729	1,358	1,458	23,380	23,187
Total Revenues	<u>2,164,529</u>	<u>2,130,819</u>	<u>68,069</u>	<u>73,678</u>	<u>2,232,598</u>	<u>2,204,497</u>
EXPENSES						
General Government	451,020	493,675	-	-	451,020	493,675
Public Safety	473,909	429,286	-	-	473,909	429,286
Public Works	784,751	667,882	-	-	784,751	667,882
Parks and Recreation	96,149	140,424	-	-	96,149	140,424
Interest and Fiscal Charges	72,542	82,561	-	-	72,542	82,561
Sewer	-	-	67,359	60,030	67,359	60,030
Total Expenses	<u>1,878,371</u>	<u>1,813,828</u>	<u>67,359</u>	<u>60,030</u>	<u>1,945,730</u>	<u>1,873,858</u>
TRANSFERS	<u>3,645</u>	<u>3,600</u>	<u>(3,645)</u>	<u>(3,600)</u>	<u>-</u>	<u>-</u>
CHANGE IN NET ASSETS	289,803	320,591	(2,935)	10,048	286,868	330,639
Net Assets - Beginning of Year	9,745,251	9,424,660	1,060,503	1,050,455	10,805,754	10,475,115
NET ASSETS - END OF YEAR	<u>\$ 10,035,054</u>	<u>\$ 9,745,251</u>	<u>\$ 1,057,568</u>	<u>\$ 1,060,503</u>	<u>\$ 11,092,622</u>	<u>\$ 10,805,754</u>

Governmental Activities. Governmental activities increased the City's net assets by \$289,803.

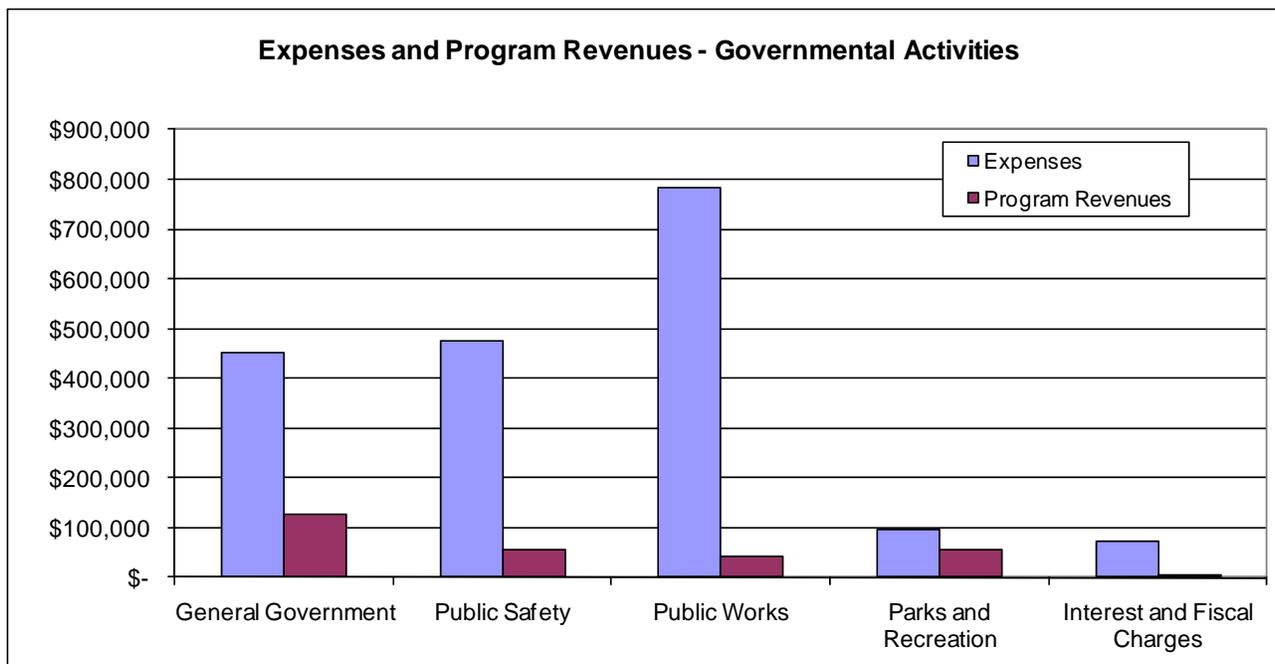
Business-Type Activities. Business-type expenses (the 201 Sewer Enterprise Fund) decreased the City's net assets by \$2,935.

**CITY OF SCANDIA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2010**

The following is a graphical representation of the various sources of the City's governmental revenues (excluding transfers) of \$2,164,529:

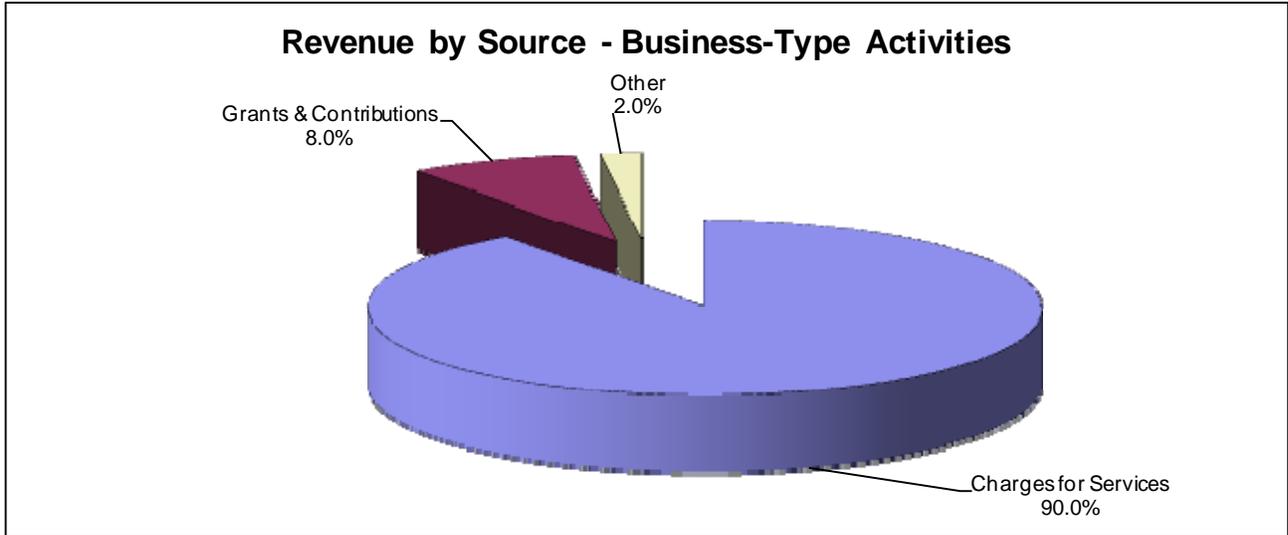


The following is a graphical representation of the various sources of the City's governmental expenses of \$1,878,371 and program revenues of \$288,191:

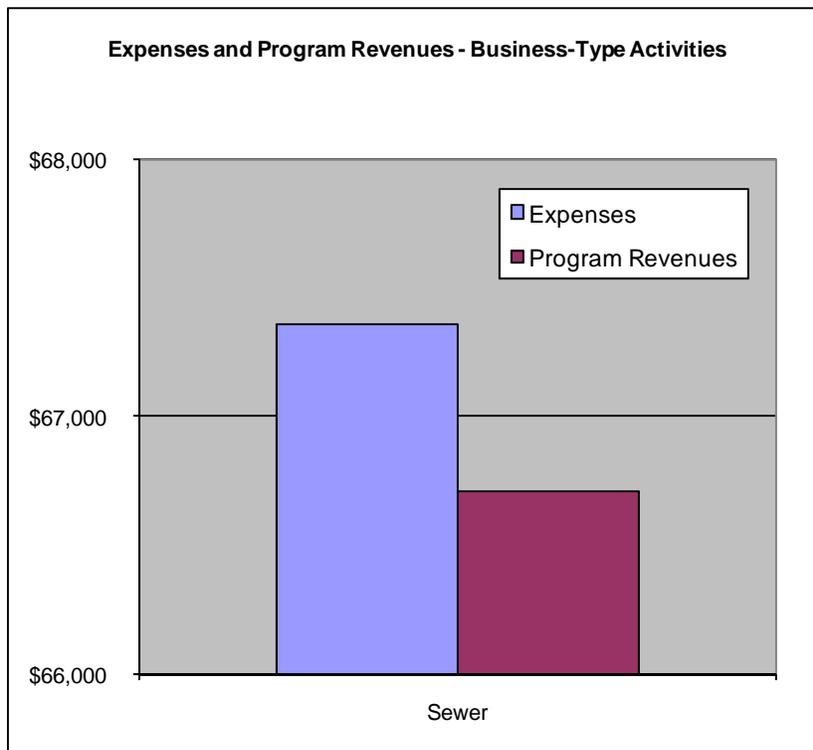


**CITY OF SCANDIA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2010**

The following is a graphical representation of the various sources of the City's business-type revenues of \$68,069:



The following is a graphical representation of the various sources of the City's business-type expenses of \$67,359 and program revenues of \$66,711:



**CITY OF SCANDIA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2010**

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.

Governmental Funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, all of the City's governmental funds together reported combined ending fund balances of \$1,763,913, an increase of \$433,602 in comparison with the prior year. Of the \$1,763,913 fund balance, approximately 73.8% (\$1,301,561) constitutes *unreserved fund balance*, which is available for spending at the City's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed to pay debt service (\$341,208) and for road maintenance on County Road 53 (\$121,144).

The General Fund is the chief operating fund of the City. At the end of the current year, fund balance of the General Fund was \$1,098,653, an increase of \$293,262 over the prior fiscal year. Key factors in this change in fund balance are as follows:

- Actual expenditures totaled \$1,449,405 (excluding transfers) for 2010 compared to budgeted expenditures of \$1,876,486.
- Actual revenues totaled \$1,818,215 for 2010 compared to budgeted revenues of \$1,953,244, a net unfavorable variance of \$135,029 (before transfers). All revenues came in over budget (favorable variance) except for charges for zoning and hearing fees where the budgeted revenues exceeded actual revenues by \$280,619.

As a measure of the General Fund's liquidity, it may be useful to compare the fund balance to total fund expenditures. Unreserved, undesignated fund balance (\$953,427) represents 65.8% of total 2010 General Fund expenditures.

Because property tax revenues are not received until the middle of the budget year, it is important that the City carry fund balances sufficient to cover anticipated expenses for the first half of the budget year. If not, the city would be forced to borrow (and pay interest on) the funds necessary to meet basic expenses such as payroll. The 65.8% unreserved, undesignated balance in the General Fund is adequate for cash flow purposes. A good long-term goal would be to maintain fund balances of 45% or 50% of total expenditures.

**CITY OF SCANDIA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2010**

General Fund Budgetary Highlights

Detail of the General Fund original budget, final budget and actual revenues and expenditures can be found beginning on page 43 of this report. The net change in the General Fund Balance was \$293,262.

The City Council approved the following budget amendments during the year:

- o Increase miscellaneous revenues (donations and other) by \$4,881 due to additional donations to be used to replace the automobile extrication equipment.
- o Increase capital outlay expenditures increased by \$4,881 to replace automobile extrication equipment.

Actual expenditures were less than budgets in several departments. Spending in the Public Works Department was \$86,168 less than budgeted (largely due to under-spending the budget for contractual road maintenance) and spending in the General Government departments (Administration, and Finance, Elections, Planning and Building and City Council) was \$327,073 less than budgeted, which largely explains the net spending of \$427,081 less than the overall General Fund Budget. Of the \$327,073 variance for General Government departments, Planning and Building expenditures makes up \$297,035 of that variance which is offset by charges for zoning and hearing fees revenue also coming in under budget by \$280,619. These variances were mainly due to less activity than anticipated related to the Zavoral Mine Environmental Impact Statement.

Proprietary Funds. The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the 201 Sewer operations at the end of the year amounted to \$187,568.

**CITY OF SCANDIA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2010**

Capital Asset and Debt Administration

Capital Assets. The City's investment in capital assets for its governmental and business type activities as of December 31, 2010, amounts to \$10,493,907 (net of accumulated depreciation). This investment in capital assets includes land, construction in process, buildings, equipment and vehicles, other improvements, the sewer system, and infrastructure. This represents an decrease in the City of Scandia's investment in capital assets (net of accumulated depreciation) of 1.4%.

**CITY OF SCANDIA'S CAPITAL ASSETS
(Net of Depreciation)**

	Governmental Activities		Business-Type Activities		Totals	
	2010	2009	2010	2009	2010	2009
Land	\$ 487,735	\$ 487,735	\$ -	\$ -	\$ 487,735	\$ 487,735
Construction in Process	39,295	-	-	-	39,295	-
Buildings	2,193,375	2,193,375	-	-	2,193,375	2,193,375
Equipment and Vehicles	1,334,741	1,192,856	-	-	1,334,741	1,192,856
Infrastructure	9,353,763	9,353,763	-	-	9,353,763	9,353,763
Other Improvements	162,647	162,647	-	-	162,647	162,647
Sewer System	-	-	1,500,000	1,500,000	1,500,000	1,500,000
Less: Accumulated Depreciation	(3,947,649)	(3,646,556)	(630,000)	(600,000)	(4,577,649)	(4,246,556)
Total	<u>\$ 9,623,907</u>	<u>\$ 9,743,820</u>	<u>\$ 870,000</u>	<u>\$ 900,000</u>	<u>\$ 10,493,907</u>	<u>\$ 10,643,820</u>

Long-Term Debt. At the end of the current fiscal year, the City had total bonded debt outstanding of \$1,620,000. All debt is backed by the full faith and credit of the City.

**CITY OF SCANDIA'S OUTSTANDING DEBT
(General Obligation)**

	Governmental Activities		Business-Type Activities		Totals	
	2010	2009	2010	2009	2010	2009
LONG-TERM OBLIGATIONS						
Long-Term Debt:						
General Obligation Notes	\$ 1,620,000	\$ 1,645,000	\$ -	\$ -	\$ 1,620,000	\$ 1,645,000
Unamortized Bond Discount	(27,553)	(31,798)	-	-	(27,553)	(31,798)
Compensated Absences	17,039	17,604	-	-	17,039	17,604
Total	<u>\$ 1,609,486</u>	<u>\$ 1,630,806</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,609,486</u>	<u>\$ 1,630,806</u>

Additional information on long-term debt is presented in Note 4 of this report.

**CITY OF SCANDIA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2010**

Economic Factors and Next Year's Budgets and Rates

- The City Council has approved a balanced budget for the General Fund for 2011. Staff will continually monitor the budget and recommend any revisions that are deemed necessary to the City Council. The 2011 budget takes into account an anticipated under-collection of property tax revenue due to the expected loss of State paid Market Value Homestead Credit (MVHC).

- During the current economic downturn the City will continue to experience slow or no growth, and the revenues from permits will continue to be below historic levels. In 2011, the City will be limited in spending increases due to the continuation of levy limits on cities over 2,500 population. The impacts on Scandia will be determined by current discussions at the State Legislature. Staff will continue to monitor the changes in this area to prepare for 2012 budget discussions, which will begin in June of 2011.

Requests for Information

This financial report is designed to provide a general overview of the City's finances 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 Scandia, 14727 209th St. N., Scandia, Minnesota 55073 (telephone 651-433-2274).

BASIC FINANCIAL STATEMENTS

**CITY OF SCANDIA, MINNESOTA
STATEMENT OF NET ASSETS
DECEMBER 31, 2010**

	Governmental Activities	Business-Type Activities	Totals
ASSETS			
Cash and Investments	\$ 1,820,475	\$ 182,521	\$ 2,002,996
Receivables:			
Taxes and Other	165,821	5,933	171,754
Special Assessments	176,207	8,230	184,437
Unamortized Issuance Costs	13,212	-	13,212
Prepaid Items	14,326	-	14,326
Capital Assets, Non Depreciable	527,030	-	527,030
Capital Assets, Net of Accumulated Depreciation	9,096,877	870,000	9,966,877
Total Assets	11,813,948	1,066,684	12,880,632
LIABILITIES			
Accounts and Contracts Payable	134,148	9,116	143,264
Accrued Payroll, Taxes and Benefits	25,789	-	25,789
Interest Payable	7,361	-	7,361
Unearned Revenue	2,110	-	2,110
Noncurrent Liabilities:			
Due Within One Year	241,683	-	241,683
Due in More Than One Year	1,367,803	-	1,367,803
Total Liabilities	1,778,894	9,116	1,788,010
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	8,031,460	870,000	8,901,460
Restricted for Debt Retirement	509,529	-	509,529
Restricted for Road Maintenance	121,144	-	121,144
Unrestricted	1,372,921	187,568	1,560,489
Total Net Assets	\$ 10,035,054	\$ 1,057,568	\$ 11,092,622

See accompanying Notes to Basic Financial Statements.

**CITY OF SCANDIA, MINNESOTA
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2010**

FUNCTIONS/PROGRAMS	Program Revenues			
	Expenses	Charges for Service	Operating Grants and Contributions	Capital Grants and Contributions
Government Activities:				
General Government	\$ 451,020	\$ 113,908	\$ 13,669	\$ -
Public Safety	473,909	30,876	25,088	-
Public Works	784,751	5,874	-	36,945
Parks and Recreation	96,149	53,269	1,960	-
Interest and Fiscal Charges	72,542	6,602	-	-
Total Governmental Activities	1,878,371	210,529	40,717	36,945
Business-Type Activities:				
Sewer	67,359	61,236	-	5,475
Total Primary Government	\$ 1,945,730	\$ 271,765	\$ 40,717	\$ 42,420

GENERAL REVENUES

Taxes:

Property Taxes, Levied for General Purposes

Grants and Contributions not Restricted for a Particular Purpose

Investment Earnings

Gain on Sale of Capital Assets

Transfers

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
\$ (323,443)	\$ -	\$ (323,443)
(417,945)	-	(417,945)
(741,932)	-	(741,932)
(40,920)	-	(40,920)
(65,940)	-	(65,940)
<u>(1,590,180)</u>	<u>-</u>	<u>(1,590,180)</u>
-	(648)	(648)
(1,590,180)	(648)	(1,590,828)
1,844,625	-	1,844,625
9,691	-	9,691
16,300	1,358	17,658
5,722	-	5,722
3,645	(3,645)	-
<u>1,879,983</u>	<u>(2,287)</u>	<u>1,877,696</u>
289,803	(2,935)	286,868
<u>9,745,251</u>	<u>1,060,503</u>	<u>10,805,754</u>
<u>\$ 10,035,054</u>	<u>\$ 1,057,568</u>	<u>\$ 11,092,622</u>

**CITY OF SCANDIA, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2010**

	General Fund	2007 Improvement Bond Debt Service	Nonmajor Governmental Funds	Totals
ASSETS				
Cash and Investments	\$ 1,136,775	\$ 168,900	\$ 514,800	\$ 1,820,475
Taxes Receivable	149,747	116	60	149,923
Special Assessments Receivable	-	176,207	-	176,207
Other Receivables	15,398	-	500	15,898
Prepaid Items	14,326	-	-	14,326
Total Assets	<u>\$ 1,316,246</u>	<u>\$ 345,223</u>	<u>\$ 515,360</u>	<u>\$ 2,176,829</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts and Contracts Payable	\$ 114,521	\$ -	\$ 19,627	\$ 134,148
Accrued Payroll, Taxes and Benefits	25,789	-	-	25,789
Deferred Revenue	77,283	175,636	60	252,979
Total Liabilities	<u>217,593</u>	<u>175,636</u>	<u>19,687</u>	<u>412,916</u>
Fund Balances:				
Reserved for Debt Service	-	169,587	171,621	341,208
Reserved for Road Maintenance	121,144	-	-	121,144
Unreserved, Designated for Capital Improvements	24,082	-	324,052	348,134
Unreserved, Undesignated	953,427	-	-	953,427
Total Fund Balances	<u>1,098,653</u>	<u>169,587</u>	<u>495,673</u>	<u>1,763,913</u>
Total Liabilities and Fund Balances	<u>\$ 1,316,246</u>	<u>\$ 345,223</u>	<u>\$ 515,360</u>	<u>\$ 2,176,829</u>

See accompanying Notes to Basic Financial Statements.

**CITY OF SCANDIA, MINNESOTA
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2010**

TOTAL FUND BALANCES FOR GOVERNMENTAL FUNDS \$ 1,763,913

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.

Capital Assets	\$ 13,571,556	
Less Accumulated Depreciation	<u>(3,947,649)</u>	9,623,907

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	75,349	
Other Special Assessments	<u>175,520</u>	250,869

Bond and equipment certificate issuance costs are reported as expenditures in the governmental funds and are shown as assets net of accumulated amortization on the statement of net assets. 13,212

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

Long-Term Obligations	(1,609,486)	
Accrued Interest on Long-Term Debt	<u>(7,361)</u>	<u>(1,616,847)</u>

TOTAL NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 10,035,054

CITY OF SCANDIA, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2010

	General Fund	2007 Improvement Bond Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES				
Taxes	\$ 1,546,679	\$ 184,845	\$ 148,958	\$ 1,880,482
Special Assessments	-	31,131	13,798	44,929
Intergovernmental Revenue	56,826	-	-	56,826
Licenses and Permits	73,939	-	-	73,939
Charges for Services	77,741	-	-	77,741
Fines and Forfeits	19,694	-	-	19,694
Miscellaneous Revenue	43,336	1,178	4,523	49,037
Total Revenues	<u>1,818,215</u>	<u>217,154</u>	<u>167,279</u>	<u>2,202,648</u>
EXPENDITURES				
Current:				
General Government	446,354	-	2,596	448,950
Public Safety	425,414	-	-	425,414
Public Works	490,079	-	-	490,079
Parks and Recreation Center	78,382	-	5,037	83,419
Debt Service:				
Principal Payments	-	135,000	90,000	225,000
Interest Payments	-	41,043	23,293	64,336
Capital Outlay:				
General Government	2,875	-	-	2,875
Public Safety	6,301	-	192,744	199,045
Public Works	-	-	39,295	39,295
Total Expenditures	<u>1,449,405</u>	<u>176,043</u>	<u>352,965</u>	<u>1,978,413</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	368,810	41,111	(185,686)	224,235
OTHER FINANCING SOURCES (USES)				
Proceeds from Sale of Equipment	-	-	5,722	5,722
Issuance of Equipment Certificate	-	-	200,000	200,000
Transfer in	4,452	53,378	80,000	137,830
Transfer Out	(80,000)	-	(54,185)	(134,185)
Total Other Financing Sources (Uses)	<u>(75,548)</u>	<u>53,378</u>	<u>231,537</u>	<u>209,367</u>
NET CHANGE IN FUND BALANCES	293,262	94,489	45,851	433,602
Fund Balances - Beginning of Year	<u>805,391</u>	<u>75,098</u>	<u>449,822</u>	<u>1,330,311</u>
FUND BALANCES - END OF YEAR	<u><u>\$ 1,098,653</u></u>	<u><u>\$ 169,587</u></u>	<u><u>\$ 495,673</u></u>	<u><u>\$ 1,763,913</u></u>

See accompanying Notes to Basic Financial Statements.

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, 2010

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ 433,602

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. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital Outlays Reported in Governmental Fund Statements	\$ 251,743	
Depreciation Expense	<u>(371,656)</u>	(119,913)

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.		(43,841)
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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 is 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 Equipment Certificates	(200,000)	
Equipment Certificate Issuance Costs	2,596	
Repayment of Bond Principal	225,000	
Change in Accrued Interest Expense	(2,000)	
Amortization of Equipment Certificate Issuance Costs	(215)	
Amortization of Bond Issuance Costs	(1,746)	
Amortization of Bond Discount	<u>(4,245)</u>	19,390

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 (generally, the amounts actually paid). During the year, the balance of compensated absences payable decreased.

		<u>565</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES		<u><u>\$ 289,803</u></u>

**CITY OF SCANDIA, MINNESOTA
STATEMENT OF NET ASSETS
PROPRIETARY FUND
DECEMBER 31, 2010**

	Sewer Enterprise Fund
ASSETS	
Current Assets:	
Cash and Investments	\$ 182,521
Special Assessments Receivable	8,230
Other Accounts Receivable	5,933
Total Current Assets	196,684
Noncurrent Assets:	
Capital Assets:	
Collection Systems	1,500,000
Less: Accumulated Depreciation	(630,000)
Total Capital Assets	870,000
Total Assets	1,066,684
LIABILITIES	
Current Liabilities:	
Accounts Payable	9,116
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	870,000
Unrestricted	187,568
Total Net Assets	\$ 1,057,568

See accompanying Notes to Basic Financial Statements.

CITY OF SCANDIA, MINNESOTA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
PROPRIETARY FUND
YEAR ENDED DECEMBER 31, 2010

	Sewer Enterprise Fund
OPERATING REVENUES	
Charges for Service	\$ 61,236
OPERATING EXPENSES	
Depreciation	30,000
Utilities	1,446
Maintenance and Other	35,913
Total Operating Expenses	67,359
OPERATING LOSS	(6,123)
NONOPERATING REVENUE	
Interest Revenue	1,358
Special Assessments	5,475
Total Nonoperating Revenue	6,833
INCOME BEFORE TRANSFERS	710
TRANSFERS	
Transfer Out	(3,645)
CHANGE IN NET ASSETS	(2,935)
Net Assets - Beginning of Year	1,060,503
NET ASSETS - END OF YEAR	\$ 1,057,568

See accompanying Notes to Basic Financial Statements.

**CITY OF SCANDIA, MINNESOTA
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED DECEMBER 31, 2010**

	<u>Sewer Enterprise Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Customers	\$ 72,069
Cash Paid to Suppliers for Goods and Services	<u>(34,315)</u>
Net Cash Provided by Operating Activities	37,754
 CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfer Out	(3,645)
 CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on Investments	<u>1,358</u>
 NET INCREASE IN CASH AND CASH EQUIVALENTS	35,467
Cash and Deposits - Beginning of Year	<u>147,054</u>
 CASH AND DEPOSITS - END OF YEAR	<u><u>\$ 182,521</u></u>
 RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating Loss	\$ (6,123)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities:	
Depreciation Expense	30,000
Special Assessments	5,475
Changes in Asset and Liability Accounts:	
Decrease in Special Assessments Receivable	(2,591)
Decrease in Other Accounts Receivable	7,949
Increase in Accounts Payable	<u>3,044</u>
Net Cash Provided by Operating Activities	<u><u>\$ 37,754</u></u>

See accompanying Notes to Basic Financial Statements.

**CITY OF SCANDIA, MINNESOTA
STATEMENT OF NET ASSETS
FIDUCIARY FUND
DECEMBER 31, 2010**

	<u>Agency Fund</u>
ASSETS	
Current Assets:	
Cash and Investments	<u>\$ 54,245</u>
 LIABILITIES	
Current Liabilities:	
Contractor Deposits	<u>\$ 54,245</u>

See accompanying Notes to Basic Financial Statements.

**CITY OF SCANDIA, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Scandia (City) 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 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, 2010

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 fund 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 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 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 fund. 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 funds are aggregated and reported as nonmajor funds.

**CITY OF SCANDIA, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2010**

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.

2007 Debt Service Fund

The 2007 debt service fund accounts 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.

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.

**CITY OF SCANDIA, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 1 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. The Agency fund, which is included as a Fiduciary Fund, does 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 fund, 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.

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.

**CITY OF SCANDIA, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (CONTINUED)

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the City's enterprise fund is 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. 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, 2010**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. 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.

G. 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.

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 2010 totaled \$120,369. Receipt of property taxes from this "fiscal disparities pool" does not increase or decrease total tax revenue.

CITY OF SCANDIA, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2010

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. 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 and deferred special 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 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 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.

I. CAPITAL ASSETS

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, sidewalks, street lights, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets exceeding the City's capitalization threshold of \$5,000 are recorded at historical cost or estimated historical cost if purchased or constructed. 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. Infrastructure has been capitalized as of 1980 and thereafter.

**CITY OF SCANDIA, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. CAPITAL ASSETS (CONTINUED)

Depreciation on exhaustible assets is recorded as an allocated expense in the statement of activities with accumulated depreciation reflected in the statement of net assets. Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are sold for an immaterial amount when declared as no longer needed for City purposes, no salvage value is taken into consideration for depreciation purposes. Useful lives vary from 3 to 30 years for buildings, equipment, vehicles, furniture and fixtures, and other improvements, and 25 to 50 years for Infrastructure. Capital assets not being depreciated include land and construction in progress.

J. 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.

K. 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 an 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.

L. 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, 2010**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. 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.

N. NEW ACCOUNTING PRONOUNCEMENTS

In March 2009, Governmental Accounting Standards Board issued GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The new standard also clarifies the definitions of individual governmental fund types. The statement interprets certain terms within the definition of special revenue fund types, while further clarifying the debt service and capital projects fund type definitions. The statement also specifies how economic stabilization or "rainy-day" amounts should be reported. The requirements of this Statement are effective for the City's fiscal year ending December 31, 2011. The effect that GASB Statement No. 54 will have on the fiscal year 2011 basic financial statements has not been determined.

**CITY OF SCANDIA, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2010**

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 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 letters 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, 2010 is \$2,057,241 and \$2,071,131, 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, 2010

NOTE 3 CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2010 was as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Governmental Activities:				
Capital Assets Not Being Depreciated:				
Land	\$ 487,735	\$ -	\$ -	\$ 487,735
Construction in Progress	-	39,295	-	39,295
Total Capital Assets Not Being Depreciated	<u>487,735</u>	<u>39,295</u>	<u>-</u>	<u>527,030</u>
Capital Assets Being Depreciated:				
Buildings	2,193,375	-	-	2,193,375
Equipment	354,949	28,447	(31,783)	351,613
Vehicles	837,907	184,001	(38,780)	983,128
Infrastructure	9,353,763	-	-	9,353,763
Other Improvements	162,647	-	-	162,647
Total Capital Assets, Being Depreciated	<u>12,902,641</u>	<u>212,448</u>	<u>(70,563)</u>	<u>13,044,526</u>
Accumulated Depreciation for:				
Buildings	(618,026)	(46,296)	-	(664,322)
Equipment	(196,875)	(29,427)	31,783	(194,519)
Vehicles	(512,314)	(50,414)	38,780	(523,948)
Infrastructure	(2,259,426)	(237,657)	-	(2,497,083)
Other Improvements	(59,915)	(7,862)	-	(67,777)
Total Accumulated Depreciation	<u>(3,646,556)</u>	<u>(371,656)</u>	<u>70,563</u>	<u>(3,947,649)</u>
Total Capital Assets, Being Depreciated, Net	<u>9,256,085</u>	<u>(159,208)</u>	<u>-</u>	<u>9,096,877</u>
Governmental Activities Capital Assets, Net	<u>\$ 9,743,820</u>	<u>\$ (119,913)</u>	<u>\$ -</u>	<u>\$ 9,623,907</u>
Business-Type Activities:				
Sewer:				
Capital Assets Being Depreciated:				
Plant	\$ 1,500,000	\$ -	\$ -	\$ 1,500,000
Less: Accumulated Depreciation	(600,000)	(30,000)	-	(630,000)
Net Capital Assets - Sewer Utility	<u>\$ 900,000</u>	<u>\$ (30,000)</u>	<u>\$ -</u>	<u>\$ 870,000</u>

Depreciation was charged to City functions as follows:

General Government	\$ 15,759
Public Safety	48,495
Public Works	294,672
Parks and Recreation	12,730
Total Depreciation - Governmental Activities	<u>\$ 371,656</u>

**CITY OF SCANDIA, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 4 CITY INDEBTEDNESS

City indebtedness at December 31, 2010 is composed of the following:

	Issue Date	Final Maturity Date	Interest Rate	Original Issue	Balance 12/31/10
Governmental Activities:					
General Obligation Debt:					
2005 Building Crossover Bonds	5/1/2005	12/1/2015	3.35-4.2%	\$ 685,000	\$ 510,000
2007 Improvement Bonds	5/1/2007	12/1/2017	3.65-4.1%	1,430,000	910,000
2010 Equipment Certificate	7/15/2010	2/1/2016	2.22-3.55%	200,000	200,000
Total Long-Term Debt				2,315,000	1,620,000
Unamortized Bond Discount				(43,090)	(27,553)
Compensated Absences				N/A	17,039
Total				<u>\$ 2,271,910</u>	<u>\$ 1,609,486</u>

The following is a schedule of changes in City indebtedness for the year ended December 31, 2010:

	Balance 1/1/10	Issued	Retired	Balance 12/31/10	Amounts Due Within One Year
Long-Term Debt					
Governmental Activities:					
General Obligation Notes	\$ 1,645,000	\$ 200,000	\$ (225,000)	\$ 1,620,000	\$ 230,000
Unamortized Bond Discount	(31,798)	-	4,245	(27,553)	-
Compensated Absences	17,604	20,874	(21,439)	17,039	11,683
Total Long-Term Debt	<u>\$ 1,630,806</u>	<u>\$ 220,874</u>	<u>\$ (242,194)</u>	<u>\$ 1,609,486</u>	<u>\$ 241,683</u>

All long-term bonded indebtedness outstanding at December 31, 2010 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.

During 2005, the City issued \$685,000 of General Obligation Building Crossover Refunding Bonds, Series 2005A for the purpose of refunding the \$1,200,000 General Obligation Building Bonds of 2000. The crossover refunding occurred on December 1, 2008.

**CITY OF SCANDIA, MINNESOTA
 NOTES TO BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2010**

NOTE 4 CITY INDEBTEDNESS (CONTINUED)

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

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 230,000	\$ 62,222	\$ 292,222
2012	275,000	52,925	327,925
2013	275,000	42,934	317,934
2014	275,000	32,643	307,643
2015	275,000	21,888	296,888
2016-2017	290,000	16,023	306,023
Total	<u>\$ 1,620,000</u>	<u>\$ 228,635</u>	<u>\$ 1,848,635</u>

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.

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 General Employees Retirement Fund (GERF), which is a cost-sharing, multiple-employer retirement plan. This plan is established and administered in accordance with *Minnesota Statutes*, Chapter 353 and 356.

GERF 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.

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.

**CITY OF SCANDIA, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 5 DEFINED BENEFIT PENSION PLANS – STATEWIDE (CONTINUED)

A. PLAN DESCRIPTION (CONTINUED)

Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a 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.

For GERS 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 GERS. That report may be obtained on the internet at 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.

**CITY OF SCANDIA, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 5 DEFINED BENEFIT PENSION PLANS – STATEWIDE (CONTINUED)

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. GERS Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.0% respectively, of their annual covered salary in 2010. The City is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan members and 7.0% for Coordinated Plan members. The City's contributions to the General Employees Retirement Fund for the years ended December 31, 2010, 2009, and 2008 were \$20,298, \$19,880, and \$21,087, respectively. The City's contributions were equal to the contractually required contributions for each year as set by state statute.

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 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 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 2010 were \$2,129.

**CITY OF SCANDIA, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2010**

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 2010 were \$309,954.

Law Enforcement Services – The City has entered into an agreement with Washington County to provide law enforcement services for 2011. 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 2010 were \$115,460. Law enforcement services for 2011 are estimated to cost approximately \$120,000.

Fire Department Services Agreement – Effective January 1, 2009, the City has entered into an agreement with May Township to provide fire services to the Township. The contract is for three years extending through December 31, 2011. If the contract is not renewed or extended by December 31, 2011, the contract will continue on a prorated month-to-month basis. Related revenues for the fiscal years 2010 and 2009 were \$30,876 and \$29,266, respectively. The Township shall pay the City \$32,574 for 2011.

NOTE 8 DESIGNATIONS AND RESERVATIONS OF FUND BALANCE

At December 31, 2010, 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, 2010 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>Designations For Capital Improvements</u>
Major Funds:		
General Fund	\$ -	\$ 24,082
2007 Improvement Debt Service	169,587	-
Nonmajor Funds:		
2000 Fire Hall Bond	171,621	-
Capital Improvement	-	188,098
Park Capital Improvement	-	15,327
Equipment Replacement	-	120,627
	<u>-</u>	<u>120,627</u>
Total Governmental Fund Balances at December 31, 2010	<u>\$ 341,208</u>	<u>\$ 348,134</u>

**CITY OF SCANDIA, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 9 INTERFUND TRANSFERS

Individual fund transfers for fiscal year 2010 are as follows:

	Transfer In	Transfer Out
Governmental Activity:		
General Fund	\$ 4,452	\$ 80,000
2007 Improvement Bond	53,378	-
Non-Major Funds:		
2004 Improvement Bond	-	53,378
Equipment Replacement	80,000	-
Sanctuary		807
Business-Type Activity:		
Sewer	-	3,645
	\$ 137,830	\$ 137,830

During 2010, the City made routine interfund transfers to allocate financial resources to the funds that received benefit from services provided by another fund.

NOTE 10 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 2010 and settlements have not exceeded insurance coverage for any of the past three fiscal years.

CITY OF SCANDIA, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2010

NOTE 10 RISK MANAGEMENT (CONTINUED)

The City has entered into a joint powers agreement with the Southwest/West Central Services Cooperative (SC) to provide group employee benefits for their employees and to obtain other financial and risk management services. The SC is a public entity which operates the health insurance pool through which the City purchases employee health insurance. The joint powers agreement provides that the SC will establish, procure, and administer group employee benefits, including selecting providers, in exchange for a service fee determined by the City's contract. The agreement is renewed annually and the City may withdraw from the agreement at any time during the year upon ninety days written notice to the Board and all providers of the program.

NOTE 11 SUBSEQUENT EVENT

The City Council adopted a resolution in June 2010 to join the Voluntary Statewide Lump-Sum Volunteer Firefighter Retirement Plan (the Plan) administered by the Public Employees Retirement Association (PERA). The Plan is an agent lump-sum defined benefit plan. Each participating city has a separate Plan account and retains its own assets and liabilities. Plan investments are managed by the Minnesota State Board of Investment. The City's participation in the Plan is effective as of January 1, 2011 and set the benefit level at \$2,500 per year of service for participating volunteer firefighters.

**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, 2010

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Property Taxes	\$ 1,488,600	\$ 1,488,600	\$ 1,546,679	\$ 58,079
Intergovernmental:				
State Aid Credits	28,194	28,194	40,578	12,384
Recycling Grant	7,223	7,223	7,235	12
Other Grants	2,000	2,000	9,013	7,013
Total Intergovernmental Revenues	<u>37,417</u>	<u>37,417</u>	<u>56,826</u>	<u>19,409</u>
Licenses and Permits	46,705	46,705	73,939	27,234
Fines and Forfeits	10,000	10,000	19,694	9,694
Charges for Services:				
Zoning and Hearing Fees	320,882	320,882	40,263	(280,619)
Fire Protection	30,876	30,876	30,876	-
Cable Franchise	5,600	5,600	6,602	1,002
Total Charges for Services	<u>357,358</u>	<u>357,358</u>	<u>77,741</u>	<u>(279,617)</u>
Miscellaneous:				
Interest	2,997	2,997	11,319	8,322
Reimbursements	-	-	625	625
Donations and Other	5,286	10,167	31,392	21,225
Total Miscellaneous	<u>8,283</u>	<u>13,164</u>	<u>43,336</u>	<u>30,172</u>
Total Revenues	1,948,363	1,953,244	1,818,215	(135,029)
EXPENDITURES				
General Government:				
Administration and Finance	346,680	346,680	321,372	(25,308)
City Council	19,539	19,539	16,124	(3,415)
Elections	5,670	5,670	5,180	(490)
Planning and Building	400,713	400,713	103,678	(297,035)
Capital Outlay	3,700	3,700	2,875	(825)
Total General Government	<u>776,302</u>	<u>776,302</u>	<u>449,229</u>	<u>(327,073)</u>
Public Safety:				
Police	120,717	120,717	115,460	(5,257)
Fire	309,191	309,191	309,954	763
Capital Outlay	-	4,881	6,301	1,420
Total Public Safety	<u>429,908</u>	<u>434,789</u>	<u>431,715</u>	<u>(3,074)</u>

CITY OF SCANDIA, MINNESOTA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (CONTINUED)
GENERAL FUND
YEAR ENDED DECEMBER 31, 2010

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
EXPENDITURES (CONTINUED)				
Public Works:				
Public Works	\$ 565,771	\$ 565,771	\$ 484,561	\$ (81,210)
Uptown Sewer	10,476	10,476	5,518	(4,958)
Total Public Works	<u>576,247</u>	<u>576,247</u>	<u>490,079</u>	<u>(86,168)</u>
Parks and Recreation:				
Parks	46,701	46,701	44,226	(2,475)
Community Center	42,447	42,447	34,156	(8,291)
Total Parks and Recreation	<u>89,148</u>	<u>89,148</u>	<u>78,382</u>	<u>(10,766)</u>
Total Expenditures	<u>1,871,605</u>	<u>1,876,486</u>	<u>1,449,405</u>	<u>(427,081)</u>
Revenues in Excess of Expenditures	76,758	76,758	368,810	292,052
OTHER FINANCING SOURCES (USES)				
Transfers In	3,645	3,645	4,452	807
Transfers Out	(80,000)	(80,000)	(80,000)	-
Total Other Financing Sources (Uses)	<u>(76,355)</u>	<u>(76,355)</u>	<u>(75,548)</u>	<u>807</u>
NET CHANGE IN FUND BALANCE	<u>\$ 403</u>	<u>\$ 403</u>	293,262	<u>\$ 292,859</u>
Fund Balance - Beginning of Year			<u>805,391</u>	
FUND BALANCE - END OF YEAR			<u>\$ 1,098,653</u>	

**CITY OF SCANDIA, MINNESOTA
 NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED DECEMBER 31, 2010**

STEWARDSHIP COMPLIANCE AND ACCOUNTABILITY - BUDGETS

The General Fund budget is legally adopted on a basis consistent with U.S. generally accepted accounting principles. Actual expenditures exceeded budgets during 2010 as follows:

	<u>Final Budget</u>	<u>Actual</u>	<u>Excess</u>
General Fund			
Public Safety:			
Fire	\$ 309,191	\$ 309,954	\$ (763)
Capital Outlay	4,881	6,301	(1,420)

COMBINING FUND FINANCIAL STATEMENTS

**CITY OF SCANDIA, MINNESOTA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2010**

	Debt Service		Capital Projects			Total Nonmajor Funds	
	2000 Fire Hall Bond Fund	2004 Improvement Bond	Capital Improvement	Sanctuary	Park Capital Improvement		Equipment Replacement
ASSETS							
Cash and Investments	\$ 171,621	\$ -	\$ 207,725	\$ -	\$ 15,327	\$ 120,127	\$ 514,800
Taxes Receivable	46	-	14	-	-	-	60
Other Receivable	-	-	-	-	-	500	500
Total Assets	<u>\$ 171,667</u>	<u>\$ -</u>	<u>\$ 207,739</u>	<u>\$ -</u>	<u>\$ 15,327</u>	<u>\$ 120,627</u>	<u>\$ 515,360</u>
LIABILITIES AND FUND BALANCES							
LIABILITIES							
Accounts Payable	\$ -	\$ -	\$ 19,627	\$ -	\$ -	\$ -	\$ 19,627
Deferred Revenue	46	-	14	-	-	-	60
Total Liabilities	<u>46</u>	<u>-</u>	<u>19,641</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>19,687</u>
FUND BALANCES							
Reserved for Debt Service	171,621	-	-	-	-	-	171,621
Unreserved, Designated for Capital Improvements	-	-	188,098	-	15,327	120,627	324,052
Total Fund Balance	<u>171,621</u>	<u>-</u>	<u>188,098</u>	<u>-</u>	<u>15,327</u>	<u>120,627</u>	<u>495,673</u>
Total Liabilities and Fund Balances	<u>\$ 171,667</u>	<u>\$ -</u>	<u>\$ 207,739</u>	<u>\$ -</u>	<u>\$ 15,327</u>	<u>\$ 120,627</u>	<u>\$ 515,360</u>

**CITY OF SCANDIA, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2010**

	Debt Service		Capital Projects				Total Nonmajor Funds
	2000 Fire Hall Bond Fund	2004 Improvement Bond	Capital Improvement	Sanctuary	Park Capital Improvement	Equipment Replacement	
REVENUES							
Taxes	\$ 118,958	\$ -	\$ 30,000	\$ -	\$ -	\$ -	\$ 148,958
Special Assessments	-	-	-	13,798	-	-	13,798
Miscellaneous Revenues	1,381	-	1,660	-	485	997	4,523
Total Revenues	<u>120,339</u>	<u>-</u>	<u>31,660</u>	<u>13,798</u>	<u>485</u>	<u>997</u>	<u>167,279</u>
EXPENDITURES							
Current:							
General Government	-	-	-	-	-	2,596	2,596
Parks and Recreation Center	-	-	-	-	5,037	-	5,037
Debt Service:							
Principal Payments	90,000	-	-	-	-	-	90,000
Interest Payments	23,293	-	-	-	-	-	23,293
Capital Outlay	-	-	39,295	-	-	192,744	232,039
Total Expenditures	<u>113,293</u>	<u>-</u>	<u>39,295</u>	<u>-</u>	<u>5,037</u>	<u>195,340</u>	<u>352,965</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	7,046	-	(7,635)	13,798	(4,552)	(194,343)	(185,686)
OTHER FINANCING SOURCES (USES)							
Proceeds from Sale of Capital Assets	-	-	-	-	-	5,722	5,722
Issuance of Equipment Certificate	-	-	-	-	-	200,000	200,000
Transfers In	-	-	-	-	-	80,000	80,000
Transfers Out	-	(53,378)	-	(807)	-	-	(54,185)
Total Other Financing Sources (Uses)	<u>-</u>	<u>(53,378)</u>	<u>-</u>	<u>(807)</u>	<u>-</u>	<u>285,722</u>	<u>231,537</u>
NET CHANGE IN FUND BALANCES	7,046	(53,378)	(7,635)	12,991	(4,552)	91,379	45,851
Fund Balance - Beginning of Year	164,575	53,378	195,733	(12,991)	19,879	29,248	449,822
FUND BALANCE - END OF YEAR	<u>\$ 171,621</u>	<u>\$ -</u>	<u>\$ 188,098</u>	<u>\$ -</u>	<u>\$ 15,327</u>	<u>\$ 120,627</u>	<u>\$ 495,673</u>

**CITY OF SCANDIA, MINNESOTA
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES – FIDUCIARY FUND
YEAR ENDED DECEMBER 31, 2010**

	Balance January 1, 2010	Additions	Deductions	Balance December 31, 2010
ASSETS				
CURRENT ASSETS				
Cash and Investments	<u>\$ 118,821</u>	<u>\$ 61,577</u>	<u>\$ 126,153</u>	<u>\$ 54,245</u>
 LIABILITIES				
CURRENT LIABILITIES				
Contractor Deposits	<u>\$ 118,821</u>	<u>\$ 61,577</u>	<u>\$ 126,153</u>	<u>\$ 54,245</u>

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 (the City) which collectively comprise the City's basic financial statements as of and for the year ended December 31, 2010, and have issued our report thereon dated May 5, 2011.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, 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 Political Subdivisions* 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 except for tax increment financing districts because the City has no tax increment financing districts.

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 except for the following:

Out of State Travel Policy

Minnesota Statutes require that the City amend its travel policy to specify when out of state travel is appropriate as well as applicable expense limits and approval procedures. The City does have a travel policy, however it does not contain specific guidelines for out of state travel. We recommend that the City modify their travel policy to include guidelines for out of state travel.

This report is intended solely for the information and use of management, the City 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
LarsonAllen LLP

Minneapolis, Minnesota
May 5, 2011

**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 (the City) as of and for the year ended December 31, 2010, which collectively comprise the City's basic financial statements and have issued our report thereon dated May 5, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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. We consider the deficiencies described below to be material weaknesses.

Honorable Mayor and
Members of the City Council

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.

Management Response:

Management has decided, due to the small size of the City's staff, that the additional costs of implementing the necessary controls outweigh the benefits that would be derived.

Material Audit Adjustments - Internal Control over the Financial Reporting Process

Condition: The audit firm proposed, and the City posted to its general ledger accounts, 26 journal entries to correct misstatements. These entries relate to internal controls over the year-end close-out process. 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: Significant audit adjustments were required to bring the financial statements into accordance with U.S. generally accepted accounting principles (GAAP).

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.

Honorable Mayor and
Members of the City Council

Management Response:

The amount of journal entries related to the year-end close-out process is reasonable for a city of our size. The City relies on the audit firm to assist in adjusting accounts to their appropriate year-end balances in accordance with GAAP as well as prepare the annual financial statements. Management has decided this is necessary due to the small size of the city staff, its level of expertise and assigned duties. The additional cost of bringing in more staff outweighs the benefits that would be derived.

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: Departures from accounting principles generally accepted in the United States of America would not necessarily be detected by management.

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.

Management Response:

The City's internal staff does not have the resources to provide internal control over the annual financial reporting under GAAP. However, annual financial statements are closely reviewed and discussed with the audit firm. The City relies on the audit firm to prepare annual financial statements. The additional cost of providing internal annual financial reporting outweighs the benefits that would be derived.

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*.

We noted certain matters that we reported to the management of the City of Scandia in a separate letter dated May 5, 2011.

The City's written responses to the findings identified in our audit have not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Honorable Mayor and
Members of the City Council

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
LarsonAllen LLP

Minneapolis, Minnesota
May 5, 2011