

**CITY OF SCANDIA, MINNESOTA**  
**FINANCIAL STATEMENTS AND**  
**SUPPLEMENTARY INFORMATION**  
**YEAR ENDED DECEMBER 31, 2008**

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

**CITY OF SCANDIA, MINNESOTA  
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YEAR ENDED DECEMBER 31, 2008**

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I.  
**INTRODUCTORY  
SECTION**

**CITY OF SCANDIA, MINNESOTA  
ELECTED AND APPOINTED OFFICIALS  
DECEMBER 31, 2008**

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

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

# LarsonAllen<sup>LLP</sup>

CPAs, Consultants & Advisors  
www.larsonallen.com

## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Scandia, Minnesota as of and for the year ended December 31, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

Because of the inadequacy of accounting records related to capital assets of governmental activities, we were unable to form an opinion regarding the amounts at which capital assets of governmental activities are recorded in the accompanying statement of net assets at December 31, 2008.

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

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had the governmental activities capital assets records been subjected to audit procedures and not providing an adequate allowance for depreciation and expense for the governmental activities as described in the preceding paragraphs, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Scandia, Minnesota as of December 31, 2008, and the respective changes in financial position and cash flows, where applicable, thereof and for the year then ended in conformity with U.S. generally accepted accounting principles.

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

In accordance with *Government Auditing Standards*, we have also issued a report dated April 2, 2009 on our consideration of the City of Scandia, Minnesota's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The 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 inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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



**LarsonAllen LLP**

Minneapolis, Minnesota  
April 2, 2009

**CITY OF SCANDIA, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2008**

**EXHIBIT 2: CHANGES IN NET ASSETS**

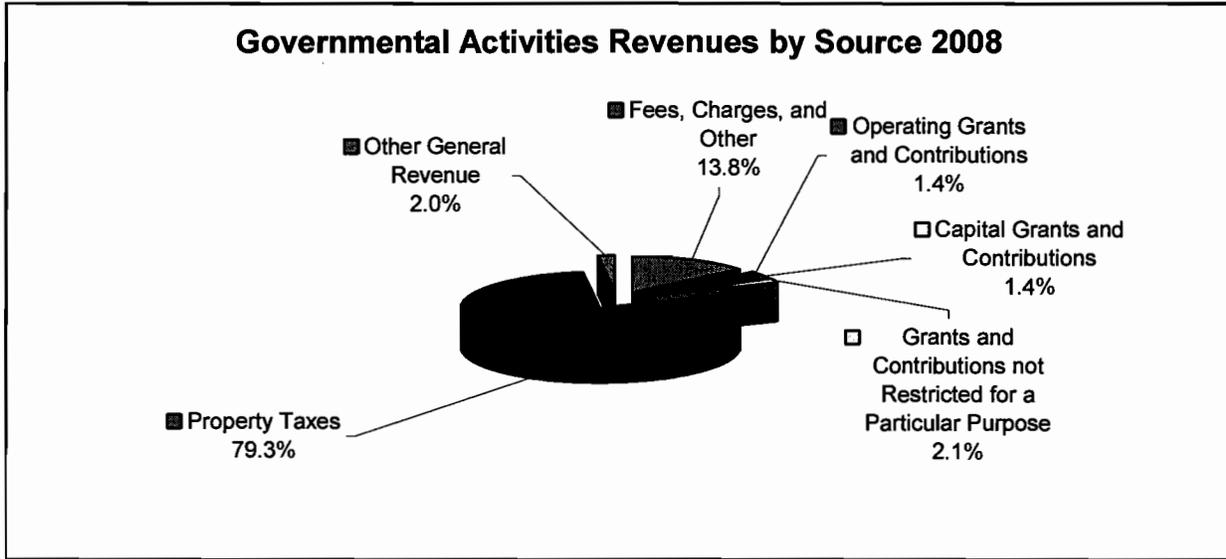
	Governmental Activities		Business-Type Activities		Totals	
	2008	2007	2008	2007	2008	2007
<b>REVENUES</b>						
<u>Program Revenues</u>						
Charges for Services	\$ 286,504	\$ 655,429	\$ 57,010	\$ 22,024	\$ 343,514	\$ 677,453
Operating Grants and Contributions	29,463	16,500	-	-	29,463	16,500
Capital Grants and Contributions	28,484	354,151	3,328	13,903	31,812	368,054
<u>General Revenues</u>						
Property Taxes	1,645,374	1,487,406	-	-	1,645,374	1,487,406
Other Taxes	-	-	-	-	-	-
Grants and Contributions Not Restricted for a Particular Purpose	42,709	102,508	-	-	42,709	102,508
Other	41,829	87,984	2,915	4,948	44,744	92,932
Total Revenues	2,074,363	2,703,978	63,253	40,875	2,137,616	2,744,853
<b>EXPENSES</b>						
General Government	554,020	532,636	-	-	554,020	532,636
Public Safety	385,665	325,752	-	-	385,665	325,752
Public Works	419,324	51,365	-	-	419,324	51,365
Highway and Streets	-	565,080	-	-	-	565,080
Parks and Recreation	108,059	89,563	-	-	108,059	89,563
Fixed and Other	-	10,310	-	-	-	10,310
Interest and Fiscal Charges	99,235	119,792	-	-	99,235	119,792
Sewer	-	-	90,983	70,081	90,983	70,081
Total Expenses	1,566,303	1,694,498	90,983	70,081	1,657,286	1,764,579
<b>TRANSFERS</b>	3,339	-	(3,339)	-	-	-
<b>CHANGE IN NET ASSETS</b>	511,399	1,009,480	(31,069)	(29,206)	480,330	980,274
Net Assets - Beginning of Year	4,839,984	3,830,504	1,081,524	1,110,730	5,921,508	4,941,234
<b>NET ASSETS - END OF YEAR</b>	\$ 5,351,383	\$ 4,839,984	\$ 1,050,455	\$ 1,081,524	\$ 6,401,838	\$ 5,921,508

**Governmental Activities.** Governmental activities increased the City's net assets by \$511,399.

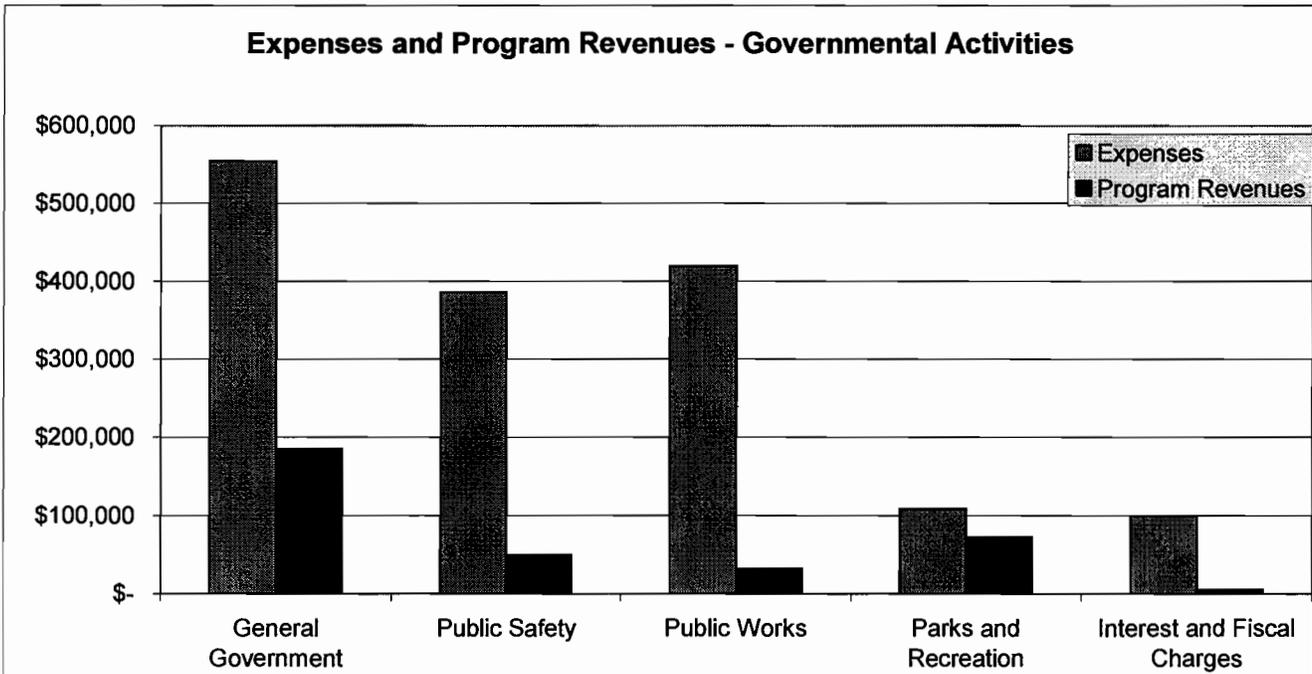
**Business-Type Activities.** Business-type expenses by program-governmental activity decreased the City's net assets by \$31,069.

**CITY OF SCANDIA, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2008**

The following is a graphical representation of the various sources of the city's governmental revenues (excluding transfers) of \$2,074,363:

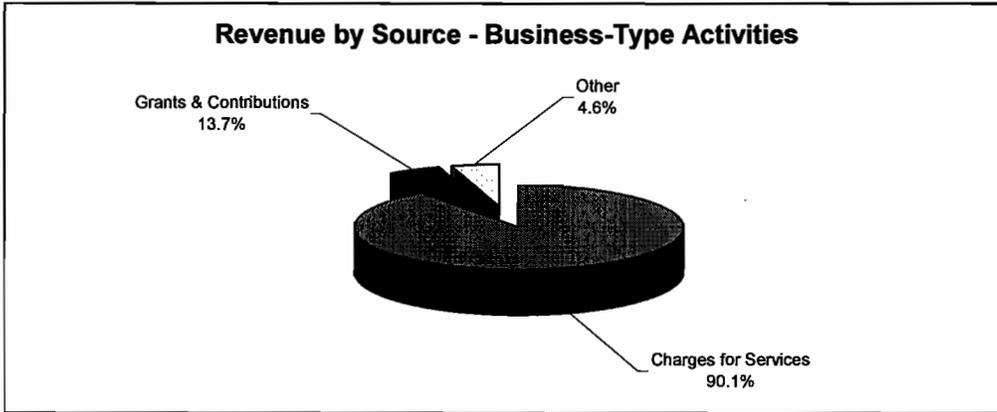


The following is a graphical representation of the various sources of the city's governmental expenses of \$1,566,303 and program revenues of \$344,451:

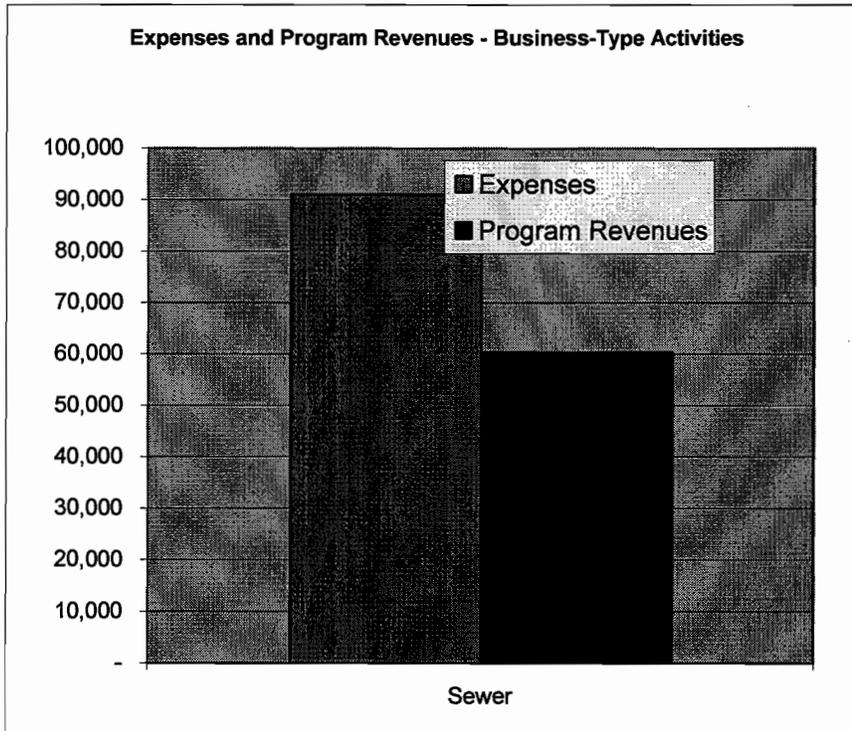


**CITY OF SCANDIA, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2008**

The following is a graphical representation of the various sources of the City's business-type revenues of \$63,253:



The following is a graphical representation of the various sources of the City's business-type expenses of \$90,983 and program revenues of \$60,338:



**CITY OF SCANDIA, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2008**

**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.

As of the end of the current fiscal year, all of the City's governmental funds together reported combined ending fund balances of \$1,181,936, a decrease of \$892,310 in comparison with the prior year. (Much of this decrease is due to the crossover refunding of the G.O. Improvement Bonds of 2002 with the G.O. Refunding Bonds of 2005.) Of the \$1,186,380 fund balance, approximately 67.5% (\$796,816) 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 (\$385,120).

The General Fund is the chief operating fund of the City. At the end of the current year, unreserved fund balance of the General Fund was \$523,449, an increase of \$503,767 over the prior fiscal year. Key factors in this change in fund balance are as follows:

- On January 1, 2008, the City closed its special revenue funds and absorbed them into the general fund. Before 2008, separate funds were maintained for different types of operational expenditures (police, fire, road and bridge, etc.) They were combined to simplify accounting and to resolve operating surpluses and deficits among the various governmental funds. This increased the fund balance of the general fund by \$299,058.
- Actual expenditures totaled \$1,405,650 (excluding transfers) for 2008 compared to budgeted expenditures of \$1,607,557.
- Actual revenues totaled \$1,647,020 for 2008 compared to budgeted revenues of \$1,659,467, a net unfavorable variance of \$12,447 (before transfers).

As a measure of the General Fund's liquidity, it may be useful to compare the fund balance to total fund expenditures. Unreserved fund balance represents 37% of total 2008 General Fund expenditures (after transfers in and transfers out).

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 37% unreserved balance in the General Fund is not adequate for cash flow purposes. Therefore, the city must borrow from other, reserved funds for cash flow purposes during the first half of the year. As total fund balances decrease, the risk increases that inter-fund borrowing will not be sufficient to cover cash flow needs. A better long-term goal would be to maintain fund balances of 45 or 50 percent of total expenditures.

**CITY OF SCANDIA, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2008**

**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 \$503,767.

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

- Capital Improvement fund budgeted to sealcoat the building parking lot. This did not take place in 2008 so the capital outlay budget was reduced by \$14,000.
- Public Works Capital Outlay expenditure budget was increased \$5,310 for addition of the garage seal coating.
- Fire Capital Outlay expenditure budget was increased \$3,410 to reflect the actual cost to sealcoat the garage floor.

Actual expenditures exceeded budgets in several cases (see pages 43-44). Excess expenditures to the Planning and Building department budget were due primarily to consultant costs for reviewing permits, which are reimbursed by applicants resulting in an off-setting increase in revenues ("zoning and hearing fees"). Actual expenditures exceeded the Police department budget due to an unanticipated increase in contractual costs from Washington County. Actual expenditures exceeded the Fire department budget due primarily to an emergency well repair, off-set by revenue from an insurance claim.

Actual expenditures were less than budgets in several departments. Spending in the Public Works Department was \$222,228 less than budgeted, which largely explains the net spending of \$201,907 less than the overall General Fund Budget.

Property tax revenues were less than expected in 2008, partially due to the State of Minnesota's "unallotment" of a \$24,035 Market Value Homestead Credit (MVHC) reimbursement that had been scheduled to be paid at the end of 2008. MVHC is a state program to reimburse cities for a property tax credit for homeowners.

**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 Sewer operations at the end of the year amounted to \$120,455.

**CITY OF SCANDIA, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2008**

**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, 2008, amounts to \$6,879,923 (net of accumulated depreciation).

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

	Governmental Activities		Business-Type Activities		Totals	
	2008	2007	2008	2007	2008	2007
Land	\$ 715,450	\$ 702,500	\$ -	\$ -	\$ 715,450	\$ 702,500
Construction in Process	-	1,464,379	-	-	-	1,464,379
Buildings	1,966,800	1,966,800	-	-	1,966,800	1,966,800
Equipment and Vehicles	1,011,494	1,011,494	-	-	1,011,494	1,011,494
Infrastructure	1,464,379	-	-	-	1,464,379	-
Furniture and Fixtures	372,362	372,362	-	-	372,362	372,362
Miscellaneous Assets	419,438	419,438	-	-	419,438	419,438
Sewer System	-	-	1,500,000	1,500,000	1,500,000	1,500,000
Less: Accumulated Depreciation	-	-	(570,000)	(540,000)	(570,000)	(540,000)
Total	<u>\$ 5,949,923</u>	<u>\$ 5,936,973</u>	<u>\$ 930,000</u>	<u>\$ 960,000</u>	<u>\$ 6,879,923</u>	<u>\$ 6,896,973</u>

**Long-Term Debt.** At the end of the current fiscal year, the City had total bonded debt outstanding of \$2,105,000. 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	
	2008	2007	2008	2007	2008	2007
<b>LONG-TERM OBLIGATIONS</b>						
Long-Term Debt:						
General Obligation Notes	\$ 2,105,000	\$ 3,565,000	\$ -	\$ -	\$ 2,105,000	\$ 3,565,000
Unamortized Bond Discount	(36,043)	(31,616)	-	-	(36,043)	(31,616)
Compensated Absences	15,700	19,031	-	-	15,700	19,031
Total	<u>\$ 2,084,657</u>	<u>\$ 3,552,415</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,084,657</u>	<u>\$ 3,552,415</u>

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

**Economic Factors and Next Year's Budgets and Rates**

- o The City Council has prepared a balanced budget for the General Fund for 2009. Staff will continually monitor the budget and recommend any revisions that are deemed necessary to the City Council. Proposals currently under discussion at the State Legislature are expected to reduce property tax revenue collection in 2009 by the full amount of the anticipated MVHC reimbursement. The full impact on 2009 revenues may not be known until late spring of 2009, but are expected to be at least \$47,379 (the amount scheduled for 2008) but no more than \$93,975 (5.5% of the city's revenue base). Until the full amount of the impact is known and formal budget amendments/reductions are made, discretionary expenditures should be minimized or delayed to the extent practical.

**CITY OF SCANDIA, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2008**

**Economic Factors and Next Year's Budgets and Rates (Continued)**

- o 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. There is some indication that the decline in values may be leveling off, and construction activity might begin to increase late in 2009 or 2010. In 2010, 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. For example, the city may or may not be able to levy to make up for the loss of MVHC reimbursements in 2009. Staff will continue to monitor the changes in this area to prepare for 2010 budget discussions, which will begin in July of 2009.

**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 209<sup>th</sup> St. N., Scandia, Minnesota 55073 (telephone 651-433-2274).

## **BASIC FINANCIAL STATEMENTS**

**CITY OF SCANDIA, MINNESOTA  
STATEMENT OF NET ASSETS  
DECEMBER 31, 2008**

	Governmental Activities	Business-Type Activities	Totals
<b>ASSETS</b>			
Cash and Investments	\$ 1,261,111	\$ 118,986	\$ 1,380,097
Receivables:			
Taxes and Other	116,323	3,510	119,833
Special Assessments	258,162	29	258,191
Due from County	-	4,669	4,669
Unamortized Issue Costs	14,323	-	14,323
Capital Assets, Unaudited	5,949,923	930,000	6,879,923
Total Assets	7,599,842	1,057,194	8,657,036
<b>LIABILITIES</b>			
Accounts and Contracts Payable	45,457	6,739	52,196
Salaries and Wages Payable	30,925	-	30,925
Interest Payable	9,315	-	9,315
Deferred Revenues	4,350	-	4,350
Due to Other Governments	73,755	-	73,755
Noncurrent Liabilities:			
Due Within One Year	471,728	-	471,728
Due in More Than One Year	1,612,929	-	1,612,929
Total Liabilities	2,248,459	6,739	2,255,198
<b>NET ASSETS</b>			
Invested in Capital Assets, Net of Related Debt	3,844,923	930,000	4,774,923
Restricted for Debt Retirement	375,805	-	375,805
Unrestricted	1,130,655	120,455	1,251,110
Total Net Assets	\$ 5,351,383	\$ 1,050,455	\$ 6,401,838

See accompanying Notes to Basic Financial Statements.

**CITY OF SCANDIA, MINNESOTA  
STATEMENT OF ACTIVITIES  
YEAR ENDED DECEMBER 31, 2008**

<b>FUNCTIONS/PROGRAMS</b>	Program Revenues			
	Expenses	Charges for Service	Operating Grants and Contributions	Capital Grants and Contributions
<b>Government Activities:</b>				
General Government	\$ 554,020	\$ 182,621	\$ 2,521	\$ -
Public Safety	385,665	22,774	26,942	-
Public Works	419,324	3,597	-	28,484
Parks and Recreation	108,059	71,894	-	-
Interest and Fiscal Charges	99,235	5,618	-	-
Total Governmental Activities	1,566,303	286,504	29,463	28,484
<b>Business-Type Activities:</b>				
Sewer	90,983	57,010	-	3,328
Total Primary Government	\$ 1,657,286	\$ 343,514	\$ 29,463	\$ 31,812

**GENERAL REVENUES**

Taxes:

Property Taxes, Levied for General Purposes

Grants and Contributions not Restricted for a Particular Purpose

Investment Earnings

Transfers

Total General Revenues

**CHANGE IN NET ASSETS**

Net Assets - Beginning of Year

**NET ASSETS - END OF YEAR**

Net (Expense) Revenue and  
Changes in Net Assets

Governmental Activities	Business-Type Activities	Total
\$ (368,878)	\$ -	\$ (368,878)
(335,949)	-	(335,949)
(387,243)	-	(387,243)
(36,165)	-	(36,165)
(93,617)	-	(93,617)
<u>(1,221,852)</u>	<u>-</u>	<u>(1,221,852)</u>
-	(30,645)	(30,645)
(1,221,852)	(30,645)	(1,252,497)
1,645,374	-	1,645,374
42,709	-	42,709
41,829	2,915	44,744
3,339	(3,339)	-
<u>1,733,251</u>	<u>(424)</u>	<u>1,732,827</u>
511,399	(31,069)	480,330
<u>4,839,984</u>	<u>1,081,524</u>	<u>5,921,508</u>
<u>\$ 5,351,383</u>	<u>\$ 1,050,455</u>	<u>\$ 6,401,838</u>

**CITY OF SCANDIA, MINNESOTA  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2008**

	General Fund	Debt Service		
		2004 Improvement Bond	2007 Improvement Bond	2000 Fire Hall Bond
<b>ASSETS</b>				
Cash and Investments	\$ 585,967	\$ 165,302	\$ 46,039	\$ 167,567
Taxes Receivable	94,368	1,264	885	843
Special Assessments Receivable	-	46,353	187,343	-
Other Receivables	17,206	-	-	-
Due from Other Funds	19,925	-	-	-
<b>Total Assets</b>	<b>\$ 717,466</b>	<b>\$ 212,919</b>	<b>\$ 234,267</b>	<b>\$ 168,410</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts and Contracts Payable	\$ 45,457	\$ -	\$ -	\$ -
Accrued Payroll, Taxes and Benefits	30,925	-	-	-
Deferred Revenue	43,880	46,273	187,804	843
Due to Other Governments	73,755	-	-	-
Due to Other Funds	-	-	-	-
<b>Total Liabilities</b>	<b>194,017</b>	<b>46,273</b>	<b>187,804</b>	<b>843</b>
<b>Fund Balances:</b>				
Reserved for Debt Service	-	166,646	50,907	167,567
Unreserved, Designated for Capital Improvements	-	-	-	-
Unreserved, Undesignated	523,449	-	(4,444)	-
<b>Total Fund Balances</b>	<b>523,449</b>	<b>166,646</b>	<b>46,463</b>	<b>167,567</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 717,466</b>	<b>\$ 212,919</b>	<b>\$ 234,267</b>	<b>\$ 168,410</b>

See accompanying Notes to Basic Financial Statements.

<u>Capital Improvements</u>	<u>Nonmajor Governmental Funds</u>	<u>Totals</u>
\$ 212,140	\$ 84,096	\$ 1,261,111
257	-	97,617
-	24,466	258,162
-	1,500	18,706
-	-	19,925
<u>\$ 212,397</u>	<u>\$ 110,062</u>	<u>\$ 1,655,521</u>
\$ -	\$ -	\$ 45,457
-	-	30,925
257	24,466	303,523
-	-	73,755
-	19,925	19,925
<u>257</u>	<u>44,391</u>	<u>473,585</u>
-	-	385,120
212,140	85,596	297,736
-	(19,925)	499,080
<u>212,140</u>	<u>65,671</u>	<u>1,181,936</u>
<u>\$ 212,397</u>	<u>\$ 110,062</u>	<u>\$ 1,655,521</u>

**CITY OF SCANDIA, MINNESOTA  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS  
GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2008**

**TOTAL FUND BALANCES FOR GOVERNMENTAL FUNDS** **\$ 1,181,936**

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

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

Land	\$ 715,450	
Buildings	1,966,800	
Furniture and Fixtures	372,362	
Equipment	398,649	
Infrastructure	1,464,379	
Miscellaneous Assets	419,438	
Vehicles	<u>612,845</u>	5,949,923

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	42,779	
Other Special Assessments	<u>256,394</u>	299,173

Bond 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. 14,323

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

General Obligation Debt Payable	(2,084,657)	
Accrued Interest on Long-Term Debt	<u>(9,315)</u>	<u>(2,093,972)</u>

**TOTAL NET ASSETS OF GOVERNMENTAL ACTIVITIES** **\$ 5,351,383**

**CITY OF SCANDIA, MINNESOTA**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**GOVERNMENTAL FUNDS**  
**YEAR ENDED DECEMBER 31, 2008**

	General Fund	Debt Service		
		2004 Improvement Bond	2007 Improvement Bond	2000 Fire Hall Bond
<b>REVENUES</b>				
Taxes	\$ 1,301,526	\$ 152,574	\$ 42,000	\$ 127,717
Special Assessments	-	39,083	98,925	-
Intergovernmental Revenue	63,259	-	-	-
Licenses and Permits	66,132	-	-	-
Charges for Services	151,870	-	-	-
Fines and Forfeits	15,953	-	-	-
User Fees	-	-	-	-
Miscellaneous Revenue	48,280	4,848	-	3,583
<b>Total Revenues</b>	<b>1,647,020</b>	<b>196,505</b>	<b>140,925</b>	<b>131,300</b>
<b>EXPENDITURES</b>				
Current:				
General Government	552,601	-	-	-
Public Safety	385,665	-	-	-
Public Works	360,461	-	-	-
Parks and Recreation Center	86,333	-	-	-
Debt Service:				
Principal Payments	20,000	240,000	250,000	745,000
Interest Payments	590	15,240	56,858	41,538
Capital Outlay:				
General Government	-	-	-	-
Public Works	-	-	-	-
Parks and Recreation Center	-	-	-	-
<b>Total Expenditures</b>	<b>1,405,650</b>	<b>255,240</b>	<b>306,858</b>	<b>786,538</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>241,370</b>	<b>(58,735)</b>	<b>(165,933)</b>	<b>(655,238)</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfer in	302,397	-	212,396	665,000
Transfer out	(40,000)	(665,000)	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>262,397</b>	<b>(665,000)</b>	<b>212,396</b>	<b>665,000</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>503,767</b>	<b>(723,735)</b>	<b>46,463</b>	<b>9,762</b>
Fund Balances - Beginning of Year	19,682	890,381	-	157,805
<b>FUND BALANCES - END OF YEAR</b>	<b>\$ 523,449</b>	<b>\$ 166,646</b>	<b>\$ 46,463</b>	<b>\$ 167,567</b>

See accompanying Notes to Basic Financial Statements.

<u>Capital Improvements</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 524	\$ 1,802	\$ 1,626,143
-	1,831	139,839
12,567	-	75,826
-	-	66,132
-	-	151,870
-	-	15,953
-	4,500	4,500
4,769	24,744	86,224
<u>17,860</u>	<u>32,877</u>	<u>2,166,487</u>
-	-	552,601
-	-	385,665
-	-	360,461
-	16,487	102,820
-	205,000	1,460,000
-	4,561	118,787
4,750	-	4,750
14,083	57,730	71,813
5,239	-	5,239
<u>24,072</u>	<u>283,778</u>	<u>3,062,136</u>
(6,212)	(250,901)	(895,649)
-	40,000	1,219,793
-	(511,454)	(1,216,454)
-	(471,454)	3,339
(6,212)	(722,355)	(892,310)
<u>218,352</u>	<u>788,026</u>	<u>2,074,246</u>
<u>\$ 212,140</u>	<u>\$ 65,671</u>	<u>\$ 1,181,936</u>

**CITY OF SCANDIA, MINNESOTA  
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES  
GOVERNMENTAL ACTIVITIES  
YEAR ENDED DECEMBER 31, 2008**

**NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS** **\$ (892,310)**

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

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

Capital Outlays Reported in Governmental Fund Statements	12,950
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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.	(92,124)
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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:

Bond Discount	11,474	
Bond Issuance Costs	7,358	
Repayment of Bond Principal	1,460,000	
Change in Accrued Interest Expense	11,309	
Amortization of Bond Issue Costs	(3,542)	
Amortization of Bond Discount	(7,047)	1,479,552

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

<b>CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES</b>	<u>3,331</u>
	<u><b>\$ 511,399</b></u>

**CITY OF SCANDIA, MINNESOTA  
STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
DECEMBER 31, 2008**

	<u>Sewer Enterprise Fund</u>
<b>ASSETS</b>	
<b>Current Assets:</b>	
Cash and Investments	\$ 118,986
Special Assessments Receivable	29
Other Accounts Receivable	3,510
Due from County	<u>4,669</u>
Total Current Assets	<u>127,194</u>
 <b>Noncurrent Assets:</b>	
Capital Assets:	
Collection Systems	1,500,000
Less: Accumulated Depreciation	<u>(570,000)</u>
Total Capital Assets	<u>930,000</u>
Total Assets	<u><u>\$ 1,057,194</u></u>
 <b>LIABILITIES</b>	
<b>Current Liabilities:</b>	
Accounts Payable	\$ 6,739
 <b>NET ASSETS</b>	
Invested in Capital Assets, Net of Related Debt	930,000
Unrestricted	<u>120,455</u>
Total Net Assets	<u>1,050,455</u>
Total Liabilities and Net Assets	<u><u>\$ 1,057,194</u></u>

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, 2008**

	<u>Sewer Enterprise Fund</u>
<b>OPERATING REVENUES</b>	
Charges for Service	\$ 60,338
<b>OPERATING REVENUES</b>	
Depreciation	30,000
Utilities	1,353
Maintenance and Other	<u>59,630</u>
Total Operating Expenses	<u>90,983</u>
<b>OPERATING LOSS</b>	(30,645)
<b>NONOPERATING REVENUE</b>	
Interest Revenue	<u>2,915</u>
<b>LOSS BEFORE TRANSFERS</b>	(27,730)
Transfer Out	<u>(3,339)</u>
<b>CHANGE IN NET ASSETS</b>	(31,069)
Net Assets - Beginning of Year	<u>1,081,524</u>
<b>NET ASSETS - END OF YEAR</b>	<u><u>\$ 1,050,455</u></u>

See accompanying Notes to Basic Financial Statements.

**CITY OF SCANDIA, MINNESOTA  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
YEAR ENDED DECEMBER 31, 2008**

	<u>Sewer Enterprise Fund</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash Received from Customers	\$ 55,487
Cash Paid to Suppliers for Goods and Services	(79,288)
Net Cash Used by Operating Activities	<u>(23,801)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Transfer Out	(3,339)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest on Investments	<u>2,915</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	(24,225)
Cash and Cash Equivalents - Beginning of Year	<u>143,211</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u><u>\$ 118,986</u></u>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES</b>	
Operating Loss	\$ (30,645)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities:	
Depreciation Expense	30,000
Changes in Asset and Liability Accounts:	
Decrease in Special Assessments Receivable	3,328
Decrease in Other Accounts Receivable	(3,510)
Increase in Due from County	(4,669)
Increase in Accounts Payable	<u>(18,305)</u>
Net Cash Used by Operating Activities	<u><u>\$ (23,801)</u></u>

See accompanying Notes to Basic Financial Statements.

**CITY OF SCANDIA, MINNESOTA  
STATEMENT OF NET ASSETS  
FIDUCIARY FUND  
YEAR ENDED DECEMBER 31, 2008**

	<u>Agency Fund</u>
<b>ASSETS</b>	
<b>Current Assets:</b>	
Cash and Investments	<u>\$        48,777</u>
 <b>LIABILITIES</b>	
<b>Current Liabilities:</b>	
Contractor Deposits	<u>\$        48,777</u>

*See accompanying Notes to Basic Financial Statements.*

**CITY OF SCANDIA, MINNESOTA  
NOTES TO BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2008**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

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

**A. FINANCIAL REPORTING ENTITY**

As required by U.S. generally accepted accounting principles, the financial statements of the reporting entity include 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, 2008**

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

**B. BASIC FINANCIAL STATEMENTS**

**1. Government-Wide Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) display information about the primary government. These statements include the financial activities of the overall City government, except for fiduciary activities. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external parties for support. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's enterprise funds and various other functions of government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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

The statement of activities demonstrates the degree to which the direct expenses of each function of the City's governmental activities and different business-type 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 funds. Separate statements for each fund category (governmental, proprietary, and fiduciary) are presented. The emphasis of governmental and proprietary fund financial statements is on major individual governmental and enterprise funds, with each displayed as separate columns in the fund financial statements. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

**CITY OF SCANDIA, MINNESOTA  
NOTES TO BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2008**

**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.

Capital Improvements

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

2004, 2007, and 2000 Fire Hall Debt Service Funds

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

The City reports the following major proprietary fund:

Sewer Fund

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

**CITY OF SCANDIA, MINNESOTA  
NOTES TO BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2008**

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

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

2. Fund Financial Statements (Continued)

Additionally, the City reports the following fiduciary fund:

Agency Fund

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

**C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING**

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Agency funds, which are included in the Fiduciary Funds, do not have a measurement focus. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

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

**CITY OF SCANDIA, MINNESOTA  
NOTES TO BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2008**

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

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

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connections with a proprietary fund's principal ongoing operations. The principal operating revenue of the City's enterprise 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, 2008**

**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 2008 totaled \$74,058. 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, 2008**

**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, deferred and special deferred assessments receivable in governmental funding are completely offset by deferred revenues. Deferred revenue in governmental activities is susceptible to full accrual on the government-wide statements.

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

**CITY OF SCANDIA, MINNESOTA  
NOTES TO BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2008**

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

**I. CAPITAL ASSETS**

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

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

**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, 2008**

**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 June 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employees for Postretirement Benefits Other than Pension*. This statement is effective for the City for the year ending December 31, 2009. The effect of GASB Statement No. 45 will have on the fiscal year 2009 basic financial statements has not yet been determined.

The GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This Statement requires that all intangible assets, including easements, water rights, timber rights, patents, trademarks, and computer software, be classified as capital assets. This Statement also establishes guidance specific to intangible assets related to amortization and provides guidance on determining the useful life of intangible assets when the length of their life is limited by contractual or legal provisions. Intangible assets with indefinite useful lives should not be amortized unless their useful life is subsequently determined to no longer be indefinite due to a change in circumstances. The requirements of this Statement will be effective for the City's fiscal year ending December 31, 2010, and may be implemented prospectively. The effect that GASB Statement No. 51 will have on the fiscal year 2010 basic financial statements has not been determined.

In March 2009, Governmental Accounting Standards Board issued GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. 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, 2008**

**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 letter of credit issued by a Federal Home Loan Bank; and time deposits insured by a federal agency. Minnesota Statutes require securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution not owned or controlled by the depository.

The carrying value and bank balance of the City's deposits in banks at December 31, 2008 is \$1,428,874 and \$1,470,171, respectively, and were entirely covered by federal depository insurance or by surety bonds and collateral in accordance with Minnesota Statutes.

**NOTE 3 CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2008 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental Activities:</b>				
Land	\$ 702,500	\$ 12,950	\$ -	\$ 715,450
Construction in Progress	1,464,379	-	1,464,379	-
Buildings	1,966,800	-	-	1,966,800
Equipment	398,649	-	-	398,649
Vehicles	612,845	-	-	612,845
Infrastructure	-	1,464,379	-	1,464,379
Furniture and Fixtures	372,362	-	-	372,362
Miscellaneous Assets	419,438	-	-	419,438
<b>Governmental Activities Capital Assets</b>	<b>\$ 5,936,973</b>	<b>\$ 1,477,329</b>	<b>\$ 1,464,379</b>	<b>\$ 5,949,923</b>
<b>Business-Type Activities:</b>				
Sewer:				
Plant	\$ 1,500,000	\$ -	\$ -	\$ 1,500,000
Less: Accumulated Depreciation	540,000	30,000	-	570,000
<b>Net Capital Assets - Sewer Utility</b>	<b>\$ 960,000</b>	<b>\$ (30,000)</b>	<b>\$ -</b>	<b>\$ 930,000</b>

**CITY OF SCANDIA, MINNESOTA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008**

**NOTE 4 CITY INDEBTEDNESS**

City indebtedness at December 31, 2008 is composed of the following:

	Issue Date	Final Maturity Date	Interest Rate	Original Issue	Balance 12/31/08
<b>Governmental Activities:</b>					
<b>General Obligation Bonds</b>					
2004 Improvement Bonds	6/15/2004	8/1/2009	2.05-3.3%	\$ 1,200,000	\$ 240,000
2005 Building Crossover Bonds	5/1/2005	12/1/2015	3.35-4.2%	685,000	685,000
2007 Improvement Bonds	5/1/2007	12/1/2017	3.65-4.1%	1,430,000	1,180,000
Total Long-Term Debt				3,315,000	2,105,000
Unamortized Bond Discount				(43,090)	(36,043)
Severances Payable				N/A	15,700
Total				<u>\$ 3,271,910</u>	<u>\$ 2,084,657</u>

The following is a schedule of changes in City indebtedness for the year ended December 31, 2008:

	Balance 1/1/08	Issued	Retired	Balance 12/31/08	Amounts Due Within One Year
<b>Long-Term Debt</b>					
<b>Governmental Activities:</b>					
General Obligation Notes	\$3,565,000	\$ -	\$(1,460,000)	\$ 2,105,000	\$ 460,000
Unamortized Bond Discount	(31,616)	(11,474)	7,047	(36,043)	-
Severance Payable	19,031	20,658	(23,989)	15,700	11,728
Total Long-Term Debt	<u>\$3,552,415</u>	<u>\$ 9,184</u>	<u>\$(1,476,942)</u>	<u>\$ 2,084,657</u>	<u>\$ 471,728</u>

All long-term bonded indebtedness outstanding at December 31, 2008 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. Future debt service payments will be reduced by \$24,214 with a present value savings of \$18,886.

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>	Principal	Interest	Total
2009	\$ 460,000	\$ 80,098	\$ 540,098
2010	225,000	64,336	289,336
2011	230,000	56,123	286,123
2012	235,000	47,525	282,525
2013	235,000	38,494	273,494
2014-2017	720,000	64,434	784,434
Total	<u>\$ 2,105,000</u>	<u>\$ 351,010</u>	<u>\$ 2,456,010</u>

**CITY OF SCANDIA, MINNESOTA  
NOTES TO BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2008**

**NOTE 4 CITY INDEBTEDNESS (CONTINUED)**

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

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

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

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

**A. PLAN DESCRIPTION**

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

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

PERA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by state statute, and vest after three years of credited service. The defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2% of average salary for each of the first 10 years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first 10 years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service.

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

**CITY OF SCANDIA, MINNESOTA  
NOTES TO BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2008**

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

**A.    PLAN DESCRIPTION (CONTINUED)**

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

The benefit provisions stated in the previous paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not receiving them yet are bound by the provisions in effect at the time they last terminated their public service.

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

**B.    FUNDING POLICY**

*Minnesota Statutes* Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The City makes annual contributions to the pension plans equal to the amount required by state statutes. PERF Basic Plan members and Coordinated Plan members are required to contribute 9.1% and 6.0% respectively, of their annual covered salary in 2008. The City is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan PERF members, and 6.5% for Coordinated Plan PERF members. Employer contribution rates for the Coordinated Plan will increase to 6.75% effectively January 1, 2009. The City's contributions to the Public Employees Retirement Fund for the years ended December 31, 2008, 2007, and 2006 were \$21,087, \$14,426, and \$13,000, respectively. The City's contributions were equal to the contractually required contributions for each year as set by state statute.

**CITY OF SCANDIA, MINNESOTA  
NOTES TO BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2008**

**NOTE 6    DEFINED CONTRIBUTION PENSION PLAN**

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

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. Minnesota Statutes, Chapter 353D.03, specifies the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes 5% of salary which is matched by the elected official's employer. Employer and Employee contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2% of employer contributions and twenty-five hundredths of one percent of the assets in each member's account annually.

Total employer and employee contributions made by the City during fiscal year 2008 were \$2,550.

**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 2008 were \$279,344.

Law Enforcement Services – The City has entered into an agreement with Washington County to provide law enforcement services for 2008. The agreement calls for the City to pay Washington County based on the actual costs associated with providing services under the agreement. Related expenditures for fiscal year 2008 were \$106,321. Law enforcement services for 2009 are estimated to cost approximately \$117,000.

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. The Town shall pay the City \$29,266, \$30,876, and \$32,574 for 2009, 2010, and 2011, respectively.

**CITY OF SCANDIA, MINNESOTA  
NOTES TO BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2008**

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

At December 31, 2008, 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, 2008 are shown on the various balance sheets as segregations of the fund balance. A summary of such designations and reservations are as follows:

	Reserved for Debt Service	Designations For Capital Improvements
Major Funds:		
2004 Improvement Bond	\$ 166,646	\$ -
2007 Improvement Debt Service	50,907	-
2000 Fire Hall Bond	167,567	-
Capital Improvement	-	212,140
Nonmajor Funds:		
Park Capital Improvement	-	35,579
Equipment Replacement	-	50,017
Total Governmental Fund Balances at December 31, 2008	\$ 385,120	\$ 297,736

A deficit undesignated fund balance of \$19,925 exists in the sanctuary capital projects fund. The deficit is expected to be eliminated by special assessment revenues in future periods.

**NOTE 9 INTERFUND RECEIVABLE AND PAYABLE**

Individual fund receivable and payable balances at December 31, 2008 are as follows:

	Interfund Receivable	Interfund Payable
Governmental Activity:		
General Fund	\$ 19,925	\$ -
Nonmajor Fund - Sanctuary	-	19,925
	\$ 19,925	\$ 19,925

Interfund receivable and payable balances represent the elimination of negative cash between funds, and are expected to be repaid in the next fiscal year.

**CITY OF SCANDIA, MINNESOTA  
NOTES TO BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2008**

**NOTE 10 INTERFUND TRANSFERS**

Individual fund transfers for fiscal year 2008 are as follows:

	Transfer In	Transfer Out
Governmental Activity:		
General Fund	\$ 302,397	\$ 40,000
Road and Bridge	-	173,618
Fire Fund	-	18,809
Police	-	3,551
2002 Improvement Bond	-	151,334
2004 Improvement Bond	-	665,000
2007 Capital Improvement	-	61,062
Park	-	57,799
Community Center	-	5,309
Water Shed	-	15,890
2000 Fire Hall Bond	665,000	-
2007 Improvement Bond	212,396	-
Equipment Replacement	40,000	-
Uptown Sewer	-	24,082
Sewer	-	3,339
	\$ 1,219,793	\$ 1,219,793

During 2008, the City made routine interfund transfers to allocate financial resources to the funds that received benefit from services provided by another fund or to establish or close-out funds.

**NOTE 11 RISK MANAGEMENT**

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

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

The City has determined that it is not possible to estimate the amount of such additional assessments, if any; however, they are not expected to be material to these financial statements. There have been no significant reductions in insurance coverage during 2008 and settlements have not exceeded insurance coverage for any of the past three fiscal years.

**REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON INFORMATION**

**CITY OF SCANDIA, MINNESOTA**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**GENERAL FUND**  
**YEAR ENDED DECEMBER 31, 2008**

	<u>Budgeted Amounts</u>		Actual Amounts	Variance with Final Budget
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Property Tax	\$ 1,368,339	\$ 1,368,339	\$ 1,301,526	\$ (66,813)
Intergovernmental:				
State Aid Credits	45,000	45,000	54,036	9,036
Recycling Grant	7,000	7,000	7,223	223
Other Grants	7,500	7,500	2,000	(5,500)
Total Intergovernmental Revenues	<u>59,500</u>	<u>59,500</u>	<u>63,259</u>	<u>3,759</u>
Licenses and Permits	86,190	86,190	66,132	(20,058)
Fines and Forfeits	9,000	9,000	15,953	6,953
Charges for Services:				
Zoning and Hearing Fees	91,325	91,325	124,090	32,765
Fire Protection	22,162	22,162	22,162	-
Cable Franchise	6,000	6,000	5,618	(382)
Total Charges for Services	<u>119,487</u>	<u>119,487</u>	<u>151,870</u>	<u>32,383</u>
Miscellaneous:				
Interest	10,591	10,591	3,885	(6,706)
Donations and Other	6,360	6,360	44,395	38,035
Total Miscellaneous	<u>16,951</u>	<u>16,951</u>	<u>48,280</u>	<u>31,329</u>
Total Revenues	1,659,467	1,659,467	1,647,020	(12,447)
<b>EXPENDITURES</b>				
<b>General Government:</b>				
Administration and Finance	342,762	342,762	316,365	(26,397)
City Council	18,713	18,713	18,188	(525)
Elections	5,770	5,770	5,521	(249)
Planning and Building	169,736	169,736	212,527	42,791
Total General Government	<u>536,981</u>	<u>536,981</u>	<u>552,601</u>	<u>15,620</u>
<b>Public Safety:</b>				
Police	101,883	101,883	106,321	4,438
Fire	263,881	267,291	279,344	12,053
Total Public Safety	<u>365,764</u>	<u>369,174</u>	<u>385,665</u>	<u>16,491</u>

**CITY OF SCANDIA, MINNESOTA**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL (CONTINUED)**  
**GENERAL FUND**  
**YEAR ENDED DECEMBER 31, 2008**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>EXPENDITURES (CONTINUED)</b>				
<b>Public Works:</b>				
Public Works	\$ 574,049	\$ 579,359	\$ 345,583	\$ (233,776)
Uptown Sewer	3,330	3,330	14,878	11,548
Total Public Works	<u>577,379</u>	<u>582,689</u>	<u>360,461</u>	<u>(222,228)</u>
<b>Parks and Recreation:</b>				
Parks	44,567	44,567	33,411	(11,156)
Community Center	52,926	52,926	52,922	(4)
Total Parks and Recreation	<u>97,493</u>	<u>97,493</u>	<u>86,333</u>	<u>(11,160)</u>
<b>Debt Service:</b>				
Principal Payments	20,630	20,630	20,000	(630)
Interest Payments	590	590	590	-
Total Debt Service	<u>21,220</u>	<u>21,220</u>	<u>20,590</u>	<u>(630)</u>
 Total Expenditures	 <u>1,598,837</u>	 <u>1,607,557</u>	 <u>1,405,650</u>	 <u>(201,907)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers In	4,739	4,739	302,397	297,658
Transfers Out	(40,000)	(40,000)	(40,000)	-
Total Other Financing Sources (Uses)	<u>(35,261)</u>	<u>(35,261)</u>	<u>262,397</u>	<u>297,658</u>
<b>NET CHANGE IN FUND BALANCE</b>	<b><u>\$ 25,369</u></b>	<b><u>\$ 16,649</u></b>	<b>503,767</b>	<b><u>\$ 487,118</u></b>
Fund Balance - Beginning of Year			<u>19,682</u>	
<b>FUND BALANCE - END OF YEAR</b>			<b><u>\$ 523,449</u></b>	

**CITY OF SCANDIA, MINNESOTA  
 NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
 YEAR ENDED DECEMBER 31, 2008**

**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 2008 as follows:

	<u>Final Budget</u>	<u>Actual</u>	<u>Excess</u>
<b>General Fund</b>			
General Government:			
Planning and Building	\$ 169,736	\$ 212,527	\$ (42,791)
Public Safety:			
Police	101,883	106,321	(4,438)
Fire	267,291	279,344	(12,053)
Public Works:			
Uptown Sewer	3,330	14,878	(11,548)

## **COMBINING FUND FINANCIAL STATEMENTS**

**CITY OF SCANDIA, MINNESOTA  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 DECEMBER 31, 2008**

	Special Revenue					
	Road and Bridge	Fire	Police	Park	Community Center	Water Shed
<b>ASSETS</b>						
Cash and Investments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Special Assessments Receivable	-	-	-	-	-	-
Other Receivable	-	-	-	-	-	-
<b>Total Assets</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>LIABILITIES AND FUND BALANCES</b>						
<b>LIABILITIES</b>						
Deferred Revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Due to Other Funds	-	-	-	-	-	-
<b>Total Liabilities</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>FUND BALANCES</b>						
Unreserved, Designated for Capital Improvements	-	-	-	-	-	-
Unreserved, Undesignated	-	-	-	-	-	-
<b>Total Fund Balance</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

2002 Improvement Debt Service	2007 Capital Improvement	Capital Projects				Total Nonmajor Funds
		Sanctuary	Park Capital Improvement	Equipment Replacement	Uptown Sewer	
\$ -	\$ -	\$ -	\$ 34,079	\$ 50,017	\$ -	\$ 84,096
-	-	24,466	-	-	-	24,466
-	-	-	1,500	-	-	1,500
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 24,466</u>	<u>\$ 35,579</u>	<u>\$ 50,017</u>	<u>\$ -</u>	<u>\$ 110,062</u>
\$ -	\$ -	\$ 24,466	\$ -	\$ -	\$ -	\$ 24,466
-	-	19,925	-	-	-	19,925
-	-	44,391	-	-	-	44,391
-	-	-	35,579	50,017	-	85,596
-	-	(19,925)	-	-	-	(19,925)
-	-	(19,925)	35,579	50,017	-	65,671
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 24,466</u>	<u>\$ 35,579</u>	<u>\$ 50,017</u>	<u>\$ -</u>	<u>\$ 110,062</u>

**CITY OF SCANDIA, MINNESOTA  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCE  
 NONMAJOR GOVERNMENTAL FUNDS  
 YEAR ENDED DECEMBER 31, 2008**

	Special Revenue					
	Road and Bridge	Fire	Police	Park	Community Center	Water Shed
<b>REVENUES</b>						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Special Assessments	-	-	-	-	-	-
User Fees	-	-	-	-	-	-
Miscellaneous Revenues	-	-	-	-	-	-
Total Revenues	-	-	-	-	-	-
<b>EXPENDITURES</b>						
Current:						
Parks and Recreation Center	-	-	-	-	-	-
Debt Service:						
Principal Payments	-	-	-	-	-	-
Interest Payments	-	-	-	-	-	-
Capital Outlay	-	-	-	-	-	-
Total Expenditures	-	-	-	-	-	-
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	-	-	-	-	-	-
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfer in	-	-	-	-	-	-
Transfer out	(173,618)	(18,809)	(3,551)	(57,799)	(5,309)	(15,890)
Total Other Financing Sources (Uses)	(173,618)	(18,809)	(3,551)	(57,799)	(5,309)	(15,890)
<b>NET CHANGE IN FUND BALANCES</b>	(173,618)	(18,809)	(3,551)	(57,799)	(5,309)	(15,890)
Fund Balance - Beginning of Year	173,618	18,809	3,551	57,799	5,309	15,890
<b>FUND BALANCE - END OF YEAR</b>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

2002 Improvement Debt Service	Capital Projects					Total Nonmajor Funds
	2007 Capital Improvement	Sanctuary	Park Capital Improvement	Equipment Replacement	Uptown Sewer	
\$ 1,802	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,802
1,831	-	-	-	-	-	1,831
-	-	-	4,500	-	-	4,500
10,531	-	12,375	898	940	-	24,744
<u>14,164</u>	<u>-</u>	<u>12,375</u>	<u>5,398</u>	<u>940</u>	<u>-</u>	<u>32,877</u>
-	-	-	16,487	-	-	16,487
205,000	-	-	-	-	-	205,000
4,561	-	-	-	-	-	4,561
-	-	32,300	-	25,430	-	57,730
<u>209,561</u>	<u>-</u>	<u>32,300</u>	<u>16,487</u>	<u>25,430</u>	<u>-</u>	<u>283,778</u>
(195,397)	-	(19,925)	(11,089)	(24,490)	-	(250,901)
-	-	-	-	40,000	-	40,000
<u>(151,334)</u>	<u>(61,062)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(24,082)</u>	<u>(511,454)</u>
<u>(151,334)</u>	<u>(61,062)</u>	<u>-</u>	<u>-</u>	<u>40,000</u>	<u>(24,082)</u>	<u>(471,454)</u>
(346,731)	(61,062)	(19,925)	(11,089)	15,510	(24,082)	(722,355)
<u>346,731</u>	<u>61,062</u>	<u>-</u>	<u>46,668</u>	<u>34,507</u>	<u>24,082</u>	<u>788,026</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ (19,925)</u>	<u>\$ 35,579</u>	<u>\$ 50,017</u>	<u>\$ -</u>	<u>\$ 65,671</u>

**CITY OF SCANDIA, MINNESOTA**  
**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES – FIDUCIARY FUNDS**  
**YEAR ENDED DECEMBER 31, 2008**

	Balance January 1, 2008	Additions	Deductions	Balance December 31, 2008
<b>ASSETS</b>				
Cash and Investments	\$ 55,777	\$ 6,000	\$ 13,000	\$ 48,777
<b>LIABILITIES</b>				
Contractor Deposits	\$ 55,777	\$ 6,000	\$ 13,000	\$ 48,777

**III.**

**OTHER REQUIRED REPORTS**

# LarsonAllen<sup>LLP</sup>

CPAs, Consultants & Advisors

www.larsonallen.com

## REPORT ON MINNESOTA LEGAL COMPLIANCE

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Scandia, Minnesota, which collectively comprise the City's basic financial statements as of and for the year ended December 31, 2008, and have issued our report thereon dated April 2, 2009.

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

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

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

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



LarsonAllen LLP

Minneapolis, Minnesota  
April 2, 2009

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

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Scandia, Minnesota as of and for the year ended December 31, 2008, which collectively comprise the City's basic financial statements and have issued our report thereon dated April 2, 2009. The report on the governmental activities was qualified because we were unable to audit the governmental activities capital assets and the capital assets were not depreciated in accordance with U.S. generally accepted accounting principles. Except as discussed in the preceding sentences, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, 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.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, as discussed below, we identified the following deficiencies in internal control that we consider to be material weaknesses.

Honorable Mayor and  
Members of the City Council  
City of Scandia

### **Limited Segregation of Duties**

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

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

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

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

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

### **Material Audit Adjustments - 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 adjustments were required to bring the financial statements into accordance with 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 U.S. generally accepted account principles (GAAP).

Honorable Mayor and  
Members of the City Council  
City of Scandia

### **Capital Assets**

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

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

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

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

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

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

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

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

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

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

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

Honorable Mayor and  
Members of the City Council  
City of Scandia

**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 April 2, 2009.

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

  
**LarsonAllen LLP**

Minneapolis, Minnesota  
April 2, 2009