

CITY OF SCANDIA, MINNESOTA
AUDITED FINANCIAL STATEMENTS
DECEMBER 31, 2014

SCHLENNER WENNER & CO.
Certified Public Accountants
& Business Consultants

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**INTRODUCTORY
SECTION**

**CITY OF SCANDIA, MINNESOTA
CITY COUNCIL AND OFFICIALS
FOR THE YEAR ENDED DECEMBER 31, 2014**

CITY COUNCIL

Term Expires

Randall Simonson	Mayor	January 1, 2015
Dan Lee	Council Member	January 1, 2017
Chris Ness	Council Member	January 1, 2017
Jim Schneider	Council Member	January 1, 2015
Sally Swanson	Council Member	January 1, 2015

CITY OFFICIALS

Kristina Handt	City Administrator
Colleen Firkus	Treasurer

**FINANCIAL
SECTION**

INDEPENDENT AUDITORS' REPORT

March 24, 2015

Honorable Mayor and City Council
City of Scandia
Scandia, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Scandia, Minnesota, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

St. Cloud

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320.251.0286

Little Falls

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P.O. Box 365
Little Falls, MN 56345
320.632.6311

Albany

115 6th St.
P.O. Box 268
Albany, MN 56307
320.845.2940

Maple Lake

220 Hwy. 55 North, Ste. 4
P.O. Box 385
Maple Lake, MN 55358
320.963.5414

Monticello

114 W. 3rd St.
P.O. Box 755
Monticello, MN 55362
763.295.5070

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, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information as shown in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 24, 2015 on our consideration of the City of Scandia's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Scandia's internal control over financial reporting and compliance.

Report on Other Legal and Regulatory Requirements

In accordance with Minnesota Statutes, we have also issued our report dated March 24, 2015, on our consideration of City of Scandia's compliance with provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minnesota Statute Section 6.65. The purpose of the report is to determine if the City has complied with Minnesota laws and regulations. That report is an integral part of an audit performed in the State of Minnesota.



SCHLENNER WENNER & CO.
St. Cloud, Minnesota

**REQUIRED SUPPLEMENTARY
INFORMATION**

**CITY OF SCANDIA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2014**

Our discussion and analysis of the City of Scandia's financial performance provides an overview of the City's financial activities for the year ended December 31, 2014. Please read it in conjunction with the independent auditor's report on page two and the City's financial statements, which begin on page eleven.

FINANCIAL HIGHLIGHTS

- The City's net position increased \$493,384 compared to the prior year as a result of this year's operations.
- In the City's business-type activities, revenues decreased approximately \$10,815 (or 10.53 percent), while operating expenses increased \$29,315 (or 28.81 percent).
- Total cost of all of the City's programs decreased \$99,395 (or 4.26 percent).
- The City's General Fund generated more revenue than budgeted of \$131,199. Expenditures were less than budgeted by \$190,277, including transfers to other funds which equaled budgeted amounts.

USING THIS ANNUAL REPORT

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

Reporting the City as a Whole

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

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

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

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

**CITY OF SCANDIA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2014**

USING THIS ANNUAL REPORT (Continued)

Reporting the City's Most Significant Funds

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

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

THE CITY AS A WHOLE

The City's combined net position increased \$493,384 from a year ago. Our analysis below focuses on the net position (Table 1) and changes in net position (Table 2) of the City's governmental and business-type activities.

**Table 1
Net Position**

	Governmental Activities		Business-Type Activities		Total Government	
	2014	2013	2014	2013	2014	2013
Current & Other Assets	\$ 3,478,568	\$ 3,071,252	\$ 132,766	\$ 153,969	\$ 3,611,334	\$ 3,225,221
Net Capital Assets	8,970,406	9,143,882	971,176	985,013	9,941,582	10,128,895
Total Assets	12,448,974	12,215,134	1,103,942	1,138,982	13,552,916	13,354,116
Current & Other Liabilities	188,162	191,862	5,727	1,611	193,889	193,473
Long-Term Debt Outstanding	1,030,000	1,325,000	-	-	1,030,000	1,325,000
Total Liabilities	1,218,162	1,516,862	5,727	1,611	1,223,889	1,518,473
Net Position:						
Net Investment in						
Capital Assets	7,940,406	7,818,882	971,176	985,013	8,911,582	8,803,895
Restricted	580,833	767,135	-	-	580,833	767,135
Unrestricted	2,709,573	2,112,255	127,039	152,358	2,836,612	2,264,613
Total Net Position	<u>\$ 11,230,812</u>	<u>\$ 10,698,272</u>	<u>\$ 1,098,215</u>	<u>\$ 1,137,371</u>	<u>\$ 12,329,027</u>	<u>\$ 11,835,643</u>

**CITY OF SCANDIA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2014**

THE CITY AS A WHOLE (Continued)

The net position of the City's governmental activities increased by \$532,540 (or 4.98 percent). Unrestricted net position (the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements) increased by \$597,318 (or 28.28 percent) compared to the prior year.

The net position of the City's business-type activities decreased by \$39,156 (or 3.44 percent). Operations were comparable to the prior year.

**Table 2
Changes in Net Position**

	Governmental Activities		Business-Type Activities		Total Government	
	2014	2013	2014	2013	2014	2013
REVENUE						
Charges for Services	\$ 327,863	\$ 342,339	\$ 86,187	\$ 99,165	\$ 414,050	\$ 441,504
Grants and Contributions	51,849	42,817	5,278	3,055	57,127	45,872
Taxes	2,190,448	2,193,758	-	-	2,190,448	2,193,758
Intergovernmental	19,558	20,221	-	-	19,558	20,221
Investment Income	8,294	8,176	430	490	8,724	8,666
Other	35,709	28,594	-	-	35,709	28,594
Total Revenues	2,633,721	2,635,905	91,895	102,710	2,725,616	2,738,615
PROGRAM EXPENSES						
General Government	426,431	584,423	-	-	426,431	584,423
Public Safety	391,752	409,771	-	-	391,752	409,771
Public Works	1,124,948	1,060,120	-	-	1,124,948	1,060,120
Parks and Recreation	111,619	109,884	-	-	111,619	109,884
Economic Development	240	-	-	-	240	-
Debt Service	46,191	65,693	-	-	46,191	65,693
201 Sewer	-	-	113,098	87,769	113,098	87,769
Uptown Sewer	-	-	17,953	13,967	17,953	13,967
Total Expenses	2,101,181	2,229,891	131,051	101,736	2,232,232	2,331,627
Transfers	-	7,042	-	(7,042)	-	-
Change in Net Position	<u>\$ 532,540</u>	<u>\$ 413,056</u>	<u>\$ (39,156)</u>	<u>\$ (6,068)</u>	<u>\$ 493,384</u>	<u>\$ 406,988</u>

The City's total revenues decreased by \$12,999 (or 0.47 percent), largely due to a decrease in charges for services offset partially by various increases in other areas. The total cost of all programs and services decreased by \$99,395 (or 4.26 percent), primarily due to costs incurred in the prior year for the completion of an environmental study to determine the impact of opening a local mine.

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

Governmental Activities

Revenue for the City's governmental activities decreased \$2,184 (or 0.08 percent), while total expenses decreased \$128,710 (or 5.77 percent). Revenues and expenses were generally consistent year to year, with the exception of decreased general government expenses, related to the matter discussed on the prior page.

**CITY OF SCANDIA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2014**

THE CITY AS A WHOLE (Continued)

Governmental Activities (Continued)

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

**Table 3
Governmental Activities**

	Total Cost of Services		Net Cost of Services	
	2014	2013	2014	2013
General Government	\$ 426,431	\$ 584,423	\$ 170,535	\$ 307,960
Public Safety	391,752	409,771	326,332	341,601
Public Works	1,124,948	1,060,120	1,109,093	1,041,195
Parks and Recreation	111,619	109,884	69,078	88,286
Economic Development	240	-	240	-
Debt Service	46,191	65,693	46,191	65,693
Totals	<u>\$ 2,101,181</u>	<u>\$ 2,229,891</u>	<u>\$ 1,721,469</u>	<u>\$ 1,844,735</u>

Business-type Activities

Revenues of the City's business-type activities (see Table 2) decreased by \$10,815 (or 10.53 percent). Expenses increased by \$29,315 (or 28.81 percent).

THE CITY'S FUNDS

Governmental Funds

As the City completed the year, its governmental funds (as presented in the balance sheet on page thirteen) reported a combined fund balance of \$3,183,111. This is an increase of \$447,147 (or 16.34 percent) from the prior year. This increase in fund balance is the net result of a multitude of transactions, but a few of the largest contributing factors unique to the current year's operations are as follows:

- Revenue from building permits issued by the City exceeded budgeted amounts by \$29,526.
- The City received escrow reimbursements of approximately \$143,956 for expenditures incurred in prior years related to the Tiller Environmental Impact Statement.
- Revenue from donations to the City totaled \$21,968, exceeding budgeted amounts by \$13,968.
- Property tax revenues of \$127,704 were recorded in the Local Road Improvement Fund, but no amounts were expended from this fund during 2014.
- Expenditures for planning and buildings services were \$99,315 less than budgeted. During 2014, the City began offsetting these contracted expenditures with the related revenues, resulting in this variance from budgeted amounts.
- Expenditures related to the general operations of the fire department were \$48,266 less than budgeted.
- Expenditures for various other City departments were less than budgeted.

Other operations were comparable to the prior year, with the exception of the issuance of the 2013 equipment certificates and significant capital outlay expenditures incurred in the prior year. Financial information specific to the governmental funds is detailed in Table 4. Such information was derived from the fund financials at pages thirteen and fifteen.

**CITY OF SCANDIA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2014**

THE CITY'S FUNDS (Continued)

Governmental Funds (Continued)

**Table 4
General, Special Revenue, Debt Service, and Capital Project Funds
Information Based on Fund Financials**

	General Fund		Debt Service Fund	
	2014	2013	2014	2013
Total Assets	\$ 1,917,489	\$ 1,819,453	\$ 444,627	\$ 446,826
Total Liabilities	\$ 150,230	\$ 163,323	\$ 435	\$ -
Deferred Inflows of Resources	\$ 51,369	\$ 61,715	\$ 93,423	\$ 109,150
Total Revenues	\$ 2,070,197	\$ 2,163,395	\$ 349,636	\$ 390,852
Total Expenditures	\$ 1,648,722	\$ 1,805,675	\$ 336,543	\$ 547,639
Debt Service Included in Total Expenditures	\$ -	\$ -	\$ 336,543	\$ 547,639
Capital Outlay Included in Total Expenditures	\$ -	\$ 63,871	\$ -	\$ -
Bond Proceeds	\$ -	\$ -	\$ -	\$ 570,000
Net Transfers	\$ (300,000)	\$ (92,858)	\$ -	\$ (544,454)
	Capital Projects Funds		Special Revenue Fund	
	2014	2013	2014	2013
Total Assets	\$ 1,115,692	\$ 804,973	\$ 760	\$ -
Total Liabilities	\$ -	\$ 1,100	\$ -	\$ -
Total Revenues	\$ 227,561	\$ 92,679	\$ 1,000	\$ -
Total Expenditures	\$ 227,142	\$ 388,020	\$ 240	\$ -
Capital Outlay Included in Total Expenditures	\$ 226,013	\$ 386,570	\$ -	\$ -
Proceeds on Sale of Asset	\$ 11,400	\$ 5,905	\$ -	\$ -
Net Transfers	\$ 300,000	\$ 644,354	\$ -	\$ -
	Total Governmental Funds			
	2014	2013		
Total Assets	\$ 3,478,568	\$ 3,071,252		
Total Liabilities	\$ 150,665	\$ 164,423		
Deferred Inflows of Resources	\$ 144,792	\$ 170,865		
Total Revenues	\$ 2,648,394	\$ 2,646,926		
Total Expenditures	\$ 2,212,647	\$ 2,741,334		
Debt Service Included in Total Expenditures	\$ 336,543	\$ 547,639		
Capital Outlay Included in Total Expenditures	\$ 226,013	\$ 450,441		
Bond Proceeds	\$ -	\$ 570,000		
Proceeds on Sale of Asset	\$ 11,400	\$ 5,905		
Net Transfers	\$ -	\$ 7,042		

**CITY OF SCANDIA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2014**

THE CITY'S FUNDS (Continued)

General Fund Budgetary Highlights

The City's General Fund generated more revenue than budgeted of \$131,199. Expenditures were less than those budgeted by \$190,277. See additional detail pertaining to differences between budgeted and actual amounts within the General Fund previously discussed on page seven and at the Budgetary Comparison Schedule on page thirty-nine.

Proprietary Funds

Financial information specific to the proprietary funds is detailed in Table 5. Such information was derived from the fund financials at pages seventeen and eighteen.

**Table 5
Proprietary Fund Information Based on Fund Financials**

	201 Sewer Fund		Uptown Sewer Fund	
	2014	2013	2014	2013
Total Assets	\$ 935,997	\$ 972,196	\$ 204,553	\$ 207,114
Total Liabilities	\$ 3,971	\$ 1,136	\$ 38,364	\$ 40,803
Total Revenues	\$ 74,064	\$ 83,897	\$ 17,831	\$ 18,813
Total Expenditures	\$ 113,098	\$ 87,769	\$ 17,953	\$ 13,967
Net Transfers	\$ -	\$ (2,972)	\$ -	\$ (4,070)
Change in Net Position	\$ (39,034)	\$ (6,844)	\$ (122)	\$ 776
	Total			
	Proprietary Funds			
	2014	2013		
Total Assets	\$ 1,140,550	\$ 1,179,310		
Total Liabilities	\$ 42,335	\$ 41,939		
Total Revenues	\$ 91,895	\$ 102,710		
Total Expenditures	\$ 131,051	\$ 101,736		
Net Transfers	\$ -	\$ (7,042)		
Change in Net Position	\$ (39,156)	\$ (6,068)		

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2014, the City had \$9,941,582 invested in a broad range of capital assets, including land, buildings, equipment and vehicles, infrastructure, improvements, and sewer systems. This amount represents a net decrease of approximately \$187,313 (or 1.85 percent) from last year.

**CITY OF SCANDIA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2014**

CAPITAL ASSET AND DEBT ADMINISTRATION (Continued)

Capital Assets (Continued)

**Table 6
Net Capital Assets at Year-End**

	Governmental Activities		Business-Type Activities		Totals	
	2014	2013	2014	2013	2014	2013
Land	\$ 487,735	\$ 487,735	\$ -	\$ -	\$ 487,735	\$ 487,735
Construction in Progress	-	25,761	-	-	-	25,761
Buildings	1,414,369	1,423,564	-	-	1,414,369	1,423,564
Equipment and Vehicles	1,130,261	1,037,192	21,039	-	1,151,300	1,037,192
Infrastructure	5,869,724	6,095,784	-	-	5,869,724	6,095,784
Other Improvements	68,317	73,846	-	-	68,317	73,846
201 Sewer System	-	-	750,000	780,000	750,000	780,000
Uptown Sewer	-	-	200,137	205,013	200,137	205,013
Totals	\$ 8,970,406	\$ 9,143,882	\$ 971,176	\$ 985,013	\$ 9,941,582	\$ 10,128,895

More detailed information about the City's capital assets is presented in Note 3.B. to the financial statements.

Debt

At year-end, the City had \$1,030,000 in debt versus \$1,325,000 last year (a decrease of 22.26 percent), as shown in Table 7.

**Table 7
Outstanding Debt at Year-End**

	Governmental Activities		Business-Type Activities		Totals	
	2014	2013	2014	2013	2014	2013
General Obligation Debt	\$ 1,030,000	\$ 1,325,000	\$ -	\$ -	\$ 1,030,000	\$ 1,325,000

See additional information at Note 3.C. to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials considered many factors when setting the year 2015 budget, such as tax rates and fees that will be charged for the business-type activities. Citizens were asked for feedback on how to fund road improvements. A majority favored general tax dollars rather than special assessments or franchise fees so the 2015 budget increased slightly to allocate more dollars to the Local Road Improvement Fund. For the second year, the Council elected to make no changes to the sewer rates. The Council expects operations in 2015 to remain fairly consistent with those of 2014. Overall budget amounts for 2015 are slightly higher than 2014's budget and operations mainly due to an increase in capital expenditures.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

BASIC FINANCIAL STATEMENTS

The basic financial statements include integrated sets of financial statements as required by the GASB. The sets of statements include:

- Government-wide financial statements
- Fund financial statements:
 - Governmental funds
 - Proprietary (enterprise) funds
 - Fiduciary Fund

In addition, the notes to the financial statements are included to provide information that is essential to a user's understanding of the basic financial statements.

**CITY OF SCANDIA, MINNESOTA
STATEMENT OF NET POSITION
DECEMBER 31, 2014**

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and Cash Equivalents	\$ 3,256,386	\$ 153,973	\$ 3,410,359
Property Taxes Receivable	62,772	-	62,772
Assessments Receivable	93,423	4,919	98,342
Accounts Receivable	20,094	10,482	30,576
Prepays	4,818	-	4,818
Inventory	4,467	-	4,467
Internal Balances	36,608	(36,608)	-
Capital Assets:			
Capital Assets not Being Depreciated	487,735	-	487,735
Capital Assets Being Depreciated (Net)	8,482,671	971,176	9,453,847
TOTAL ASSETS	12,448,974	1,103,942	13,552,916
LIABILITIES			
Accounts Payable	126,792	5,727	132,519
Accrued Payroll, Taxes, and Benefits	21,229	-	21,229
Accrued Interest	8,110	-	8,110
Unearned Revenue	2,644	-	2,644
Noncurrent Liabilities:			
Compensated Absences	29,387	-	29,387
Debt Due Within One Year	250,000	-	250,000
Debt Due After One Year	780,000	-	780,000
TOTAL LIABILITIES	1,218,162	5,727	1,223,889
NET POSITION			
Net Investment in Capital Assets	7,940,406	971,176	8,911,582
Restricted	580,833	-	580,833
Unrestricted	2,709,573	127,039	2,836,612
TOTAL NET POSITION	\$ 11,230,812	\$ 1,098,215	\$ 12,329,027

**CITY OF SCANDIA, MINNESOTA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2014**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-Type Activities	
Governmental Activities:							
General Government	\$ 426,431	\$ 255,896	\$ -	\$ -	\$ (170,535)	\$ -	\$ (170,535)
Public Safety	391,752	35,594	29,826	-	(326,332)	-	(326,332)
Public Works	1,124,948	10,342	-	5,513	(1,109,093)	-	(1,109,093)
Parks and Recreation	111,619	26,031	16,510	-	(69,078)	-	(69,078)
Economic Development	240	-	-	-	(240)	-	(240)
Debt Service	46,191	-	-	-	(46,191)	-	(46,191)
Total Governmental Activities	2,101,181	327,863	46,336	5,513	(1,721,469)	-	(1,721,469)
Business-Type Activities:							
201 Sewer	113,098	68,356	-	5,278	-	(39,464)	(39,464)
Uptown Sewer	17,953	17,831	-	-	-	(122)	(122)
Total Business-Type Activities	131,051	86,187	-	5,278	-	(39,586)	(39,586)
TOTALS	\$ 2,232,232	\$ 414,050	\$ 46,336	\$ 10,791	(1,721,469)	(39,586)	(1,761,055)
General Revenues:							
Taxes					2,190,448	-	2,190,448
Intergovernmental					19,558	-	19,558
Investment Income					8,294	430	8,724
Miscellaneous					24,309	-	24,309
Gain on Disposal of Assets					11,400	-	11,400
Total General Revenues					2,254,009	430	2,254,439
CHANGE IN NET POSITION					532,540	(39,156)	493,384
NET POSITION-BEGINNING OF YEAR					10,698,272	1,137,371	11,835,643
NET POSITION-END OF YEAR					\$ 11,230,812	\$ 1,098,215	\$ 12,329,027

**CITY OF SCANDIA, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2014**

	General Fund	Debt Service Fund	Equipment Replacement Fund	Total Nonmajor Governmental Funds	Total Governmental Funds
ASSETS					
Cash and Cash Equivalents	\$ 1,823,041	\$ 351,201	\$ 451,023	\$ 631,121	\$ 3,256,386
Property Taxes Receivable	62,769	3	-	-	62,772
Assessments Receivable	-	93,423	-	-	93,423
Accounts Receivable	20,094	-	-	-	20,094
Prepays	4,818	-	-	-	4,818
Inventory	4,467	-	-	-	4,467
Due from Other Fund	2,300	-	-	-	2,300
Advance to Other Fund	-	-	-	34,308	34,308
	<u>-</u>	<u>-</u>	<u>-</u>	<u>34,308</u>	<u>34,308</u>
TOTAL ASSETS	<u>\$ 1,917,489</u>	<u>\$ 444,627</u>	<u>\$ 451,023</u>	<u>\$ 665,429</u>	<u>\$ 3,478,568</u>
LIABILITIES					
Accounts Payable	\$ 126,357	\$ 435	\$ -	\$ -	\$ 126,792
Accrued Payroll, Taxes, and Benefits	21,229	-	-	-	21,229
Unearned Revenue	2,644	-	-	-	2,644
Total Liabilities	150,230	435	-	-	150,665
DEFERRED INFLOWS OF RESOURCES					
Unavailable Revenue:					
Property Taxes	51,369	-	-	-	51,369
Special Assessments	-	93,423	-	-	93,423
Total Deferred Inflows of Resources	51,369	93,423	-	-	144,792
FUND BALANCES					
Nonspendable	9,285	-	-	34,308	43,593
Restricted	135,298	350,769	9,453	-	495,520
Committed	-	-	-	430,054	430,054
Assigned	-	-	441,570	201,067	642,637
Unassigned	1,571,307	-	-	-	1,571,307
Total Fund Balances	<u>1,715,890</u>	<u>350,769</u>	<u>451,023</u>	<u>665,429</u>	<u>3,183,111</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u>\$ 1,917,489</u>	<u>\$ 444,627</u>	<u>\$ 451,023</u>	<u>\$ 665,429</u>	<u>\$ 3,478,568</u>

**CITY OF SCANDIA, MINNESOTA
RECONCILIATION OF THE BALANCE SHEET-GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2014**

Total fund balance for governmental funds	\$	3,183,111
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets (net of accumulated depreciation of \$5,331,258) used in governmental activities are not financial resources and, therefore are not reported in the funds.		8,970,406
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Other long-term assets are not available to pay for current-period expenditures and therefore are reported as unavailable revenue in the funds.		144,792
---	--	---------

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.		
Accrued Interest		(8,110)
Compensated Absences		(29,387)

Long-term liabilities are not due and payable in the current period and, therefore, they are not reported in the governmental funds.		
Debt Due Within One Year		(250,000)
Debt Due After One Year		(780,000)

TOTAL NET POSITION OF GOVERNMENTAL ACTIVITIES		<u>\$ 11,230,812</u>
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CITY OF SCANDIA, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014

	General Fund	Debt Service Fund	Equipment Replacement Fund	Total Nonmajor Governmental Funds	Total Governmental Funds
REVENUES					
Taxes	\$ 1,650,184	\$ 327,506	\$ -	\$ 223,104	\$ 2,200,794
Special Assessments	-	21,240	-	-	21,240
Licenses, Permits, and Fees	83,659	-	-	-	83,659
Intergovernmental	43,926	-	-	-	43,926
Charges for Services	227,736	-	-	3,000	230,736
Fines	13,468	-	-	-	13,468
Investment Income	4,947	890	1,313	1,144	8,294
Miscellaneous	46,277	-	-	-	46,277
TOTAL REVENUES	<u>2,070,197</u>	<u>349,636</u>	<u>1,313</u>	<u>227,248</u>	<u>2,648,394</u>
EXPENDITURES					
Current:					
General Government	411,615	-	-	-	411,615
Public Safety	336,313	-	-	-	336,313
Public Works	798,551	-	-	1,129	799,680
Parks and Recreation	102,243	-	-	-	102,243
Economic Development	-	-	-	240	240
Debt Service:					
Principal	-	295,000	-	-	295,000
Interest and Other Charges	-	41,543	-	-	41,543
Capital Outlay	-	-	190,048	35,965	226,013
TOTAL EXPENDITURES	<u>1,648,722</u>	<u>336,543</u>	<u>190,048</u>	<u>37,334</u>	<u>2,212,647</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	421,475	13,093	(188,735)	189,914	435,747
OTHER FINANCING SOURCES (USES)					
Proceeds on Sale of Assets	-	-	11,400	-	11,400
Operating Transfers In	-	-	100,000	200,000	300,000
Operating Transfers Out	(300,000)	-	-	-	(300,000)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(300,000)</u>	<u>-</u>	<u>111,400</u>	<u>200,000</u>	<u>11,400</u>
NET CHANGE IN FUND BALANCES	121,475	13,093	(77,335)	389,914	447,147
FUND BALANCES - BEGINNING	<u>1,594,415</u>	<u>337,676</u>	<u>528,358</u>	<u>275,515</u>	<u>2,735,964</u>
FUND BALANCES - ENDING	<u>\$ 1,715,890</u>	<u>\$ 350,769</u>	<u>\$ 451,023</u>	<u>\$ 665,429</u>	<u>\$ 3,183,111</u>

**CITY OF SCANDIA, MINNESOTA
RECONCILIATION OF CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2014**

Net change in fund balances - total governmental funds \$ 447,147

Amounts reported for governmental activities in the Statement of Activities are different due to the following:

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:

Capital Outlay	\$ 226,013	
Depreciation Expense	<u>(399,489)</u>	(173,476)

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

Change in Long-term Receivables		(26,073)
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Proceeds from the issuance of long-term debt is an other financing source in the governmental funds, while repayment of debt principal is an expenditure in the governmental funds. However, neither transaction has any effect on net position:

Bond Payments		295,000
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Net change in accrued interest on bonds is not reported as an expenditure in the funds:

		(4,648)
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:

Change in Accrued Compensated Absences		<u>(5,410)</u>
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CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES		<u><u>\$ 532,540</u></u>
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**CITY OF SCANDIA, MINNESOTA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2014**

	201 Sewer Fund	Uptown Sewer Fund	Totals
ASSETS			
Current Assets			
Cash and Cash Equivalents	\$ 153,877	\$ 96	\$ 153,973
Accounts Receivable	6,162	4,320	10,482
Assessments Receivable	4,919	-	4,919
Total Current Assets	164,958	4,416	169,374
Noncurrent Assets			
Capital Assets Being Depreciated (Net)	771,039	200,137	971,176
TOTAL ASSETS	935,997	204,553	1,140,550
LIABILITIES			
Current Liabilities			
Accounts Payable	3,971	1,756	5,727
Due to Other Funds	-	2,300	2,300
Total Current Liabilities	3,971	4,056	8,027
Noncurrent Liabilities			
Advance from Other Funds	-	34,308	34,308
TOTAL LIABILITIES	3,971	38,364	42,335
NET POSITION			
Net Investment in Capital Assets	771,039	200,137	971,176
Unrestricted	160,987	(33,948)	127,039
TOTAL NET POSITION	\$ 932,026	\$ 166,189	\$ 1,098,215

CITY OF SCANDIA, MINNESOTA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014

	<u>201 Sewer Fund</u>	<u>Uptown Sewer Fund</u>	<u>Totals</u>
OPERATING REVENUES			
Charges for Services	\$ 68,356	\$ 17,831	\$ 86,187
OPERATING EXPENSES			
Wages and Benefits	19,512	5,739	25,251
Materials and Supplies	2,767	9	2,776
Professional Services	5,484	199	5,683
Repairs and Maintenance	44,500	4,571	49,071
Other Services and Charges	10,599	2,559	13,158
Depreciation	<u>30,236</u>	<u>4,876</u>	<u>35,112</u>
TOTAL OPERATING EXPENSES	<u>113,098</u>	<u>17,953</u>	<u>131,051</u>
NET OPERATING LOSS	(44,742)	(122)	(44,864)
NONOPERATING INCOME			
Special Assessments	5,278	-	5,278
Investment Income	<u>430</u>	<u>-</u>	<u>430</u>
TOTAL NONOPERATING INCOME	<u>5,708</u>	<u>-</u>	<u>5,708</u>
CHANGE IN NET POSITION	(39,034)	(122)	(39,156)
NET POSITION-BEGINNING OF YEAR	<u>971,060</u>	<u>166,311</u>	<u>1,137,371</u>
NET POSITION-END OF YEAR	<u><u>\$ 932,026</u></u>	<u><u>\$ 166,189</u></u>	<u><u>\$ 1,098,215</u></u>

**CITY OF SCANDIA, MINNESOTA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

	201 Sewer Fund	Uptown Sewer Fund	Totals
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Received from Customers	\$ 74,154	\$ 15,612	\$ 89,766
Cash Paid to Suppliers	(60,515)	(6,057)	(66,572)
Cash Paid to Employees	(19,512)	(5,739)	(25,251)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(5,873)	3,816	(2,057)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Special Assessments	5,045	-	5,045
Net Advances to/from Other Funds	-	(1,080)	(1,080)
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	5,045	(1,080)	3,965
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Payments to Capital Improvement Fund	-	(2,640)	(2,640)
Purchases of Capital Assets	(21,275)	-	(21,275)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(21,275)	(2,640)	(23,915)
CASH FLOW FROM INVESTING ACTIVITIES			
Investment Income	430	-	430
Net Increase (Decrease) in Cash and Cash Equivalents	(21,673)	96	(21,577)
Cash and Cash Equivalents-Beginning of Year	175,550	-	175,550
Cash and Cash Equivalents-End of Year	\$ 153,877	\$ 96	\$ 153,973
RECONCILIATION OF NET OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES			
Net Operating Loss	\$ (44,742)	\$ (122)	\$ (44,864)
Adjustments to Reconcile Net Operating Loss to Net Cash Provided by Operating Activities			
Cash Flows Reported in Other Categories:			
Depreciation Expense	30,236	4,876	35,112
Change in Assets and Liabilities:			
Accounts Receivable	5,798	(2,219)	3,579
Accounts Payable	2,835	1,281	4,116
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ (5,873)	\$ 3,816	\$ (2,057)

**CITY OF SCANDIA, MINNESOTA
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUND
DECEMBER 31, 2014**

	<u>Agency Fund</u>
ASSETS	
Cash and Cash Equivalents	\$ <u>71,067</u>
LIABILITIES	
Accounts Payable	\$ <u>71,067</u>

CITY OF SCANDIA, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS

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CITY OF SCANDIA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2014

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Scandia (the City) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements.

The City has a mayor-council form of government that is governed by an elected mayor and four-member council. The City provides the following services: sanitation, recreation, public improvements, public safety, planning and zoning, and general administrative services.

1.A. FINANCIAL REPORTING ENTITY

The City's financial reporting entity is comprised of the primary governmental unit of the City of Scandia, Minnesota.

In determining the financial reporting entity, the City complies with the provisions of GASB No. 14, *The Financial Reporting Entity*, and includes all component units of which the City appointed a voting majority of the units' board; the City is either able to impose its will on the unit or a financial benefit or burden relationship exists.

Blended Component Units

Blended component units are separate legal entities that meet the component unit criteria describe above and whose governing body is the same or substantially the same as the City Council or the component unit provides services entirely to the City. These component units' funds are blended into those of the City's by appropriate activity type to compose the primary government presentation. The City's blended component units consist of:

Economic Development Authority – The City created an Economic Development Authority (EDA) by resolution of its City Council. The EDA is governed by a five-member board appointed by the City Council. Although it is legally separate from the City, the EDA is reported as if it were part of the primary government because its purpose is to approve the City's redevelopment plans. The EDA cannot issue bonded debt without the City's approval.

Discretely Presented Component Units

Discretely presented component units are separate legal entities that meet the component unit criteria described above but do not meet the criteria for blending. Currently, the City has no discretely presented component units.

1.B. BASIS OF PRESENTATION

Government-wide Financial Statements

The Statement of Net Position and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The fiduciary fund is only reported in the Statement of Fiduciary Net Position at the fund financial statement level. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods and services.

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, deferred inflows, fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories.

CITY OF SCANDIA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2014

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.B. BASIS OF PRESENTATION (Continued)

Fund Financial Statements (Continued)

A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

- Total assets, liabilities and deferred inflows, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- Total assets, liabilities and deferred inflows, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The funds of the financial reporting entity are described below:

Governmental Funds

General Fund

The General Fund is the primary operating fund of the City and is always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Debt Service Fund

The Debt Service Fund accounts for the accumulation of financial resources for the payment of interest and principal on general long-term debt of the City other than debt service payments made by enterprise funds. Ad valorem taxes are used for the payment of principal and interest on the City's judgment.

Capital Projects Funds

The Capital Projects Improvement Funds are used to account for financial resources to be used for the acquisition or construction of capital projects (other than funds financed by proprietary funds).

Special Revenue Fund

The Special Revenue Funds account for funds received by the City with a specific purpose.

Proprietary Fund

Enterprise Funds

Enterprise Funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector.

Fiduciary Fund

Agency Fund

This fund accounts for assets held by the City as an agent for other parties. These assets cannot be used to finance the City's own operating programs.

**CITY OF SCANDIA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.B. BASIS OF PRESENTATION (Continued)

Fund Financial Statements (Continued)

Major and Nonmajor Funds

The funds are further classified as major and nonmajor as follows:

Fund	Description
Major:	
General	See description above.
Debt Service Fund	See description above.
Capital Project Fund:	
Equipment Replacement Fund	See description above.
Proprietary Funds:	
201 Sewer and Uptown Sewer	Accounts for the activities of the City for providing sewer services to the public.
Nonmajor:	
Special Revenue Fund	See description above.
Capital Project Funds	See description above.
Fiduciary Fund	See description above.

1.C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

Measurement Focus

On the government-wide Statement of Net Position and the Statement of Activities, both governmental and business-like activities are presented using the “economic resources” measurement focus as defined in the second bullet point below.

In the fund financial statements, the “current financial resources” measurement focus or the “economic resources” measurement focus is used as appropriate:

- All governmental funds utilize a current financial resources measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- The government-wide financial statements, proprietary, and fiduciary funds utilize an economic resources measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), and financial position. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net position.

Basis of Accounting

In the government-wide Statement of Net Position and Statement of Activities, both governmental and business-like activities are presented using the “accrual” basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

**CITY OF SCANDIA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (Continued)

Basis of Accounting (Continued)

In the fund financial statements, governmental funds are presented on the “modified accrual” basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when “measurable and available.” Measurable means knowing or being able to reasonable estimate the amount. Available means collectible within the current period or within sixty days after year end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

All proprietary and fiduciary funds utilize the accrual basis of accounting.

1.D. USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

1.E. ASSETS, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND EQUITY

Cash and Cash Equivalents

For purposes of the Statement of Net Position, “cash and cash equivalents” includes all demand, savings, and money market accounts for the City. For the purpose of the proprietary fund Statement of Cash Flows, “cash and cash equivalents” include all demand, savings, and money market accounts.

See Note 3.A. for additional information related to Cash and Cash Equivalents.

Interfund Receivables and Payables

During the course of operations, transactions occur between individual funds that may result in amounts owed between funds. Those related to good and services type transactions are classified as “due to and from other funds.” Short-term interfund loans are reported as “due to/from other fund.” Long-term interfund loans (noncurrent portion) are reported as “advances from and to other funds.” Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Position. See Note 3.D. for details of interfund transactions, including receivables and payables at year-end.

Prepays

Prepays represent costs paid during the current year to be recognized in future periods.

Inventories

Inventory is valued at the lower of average cost or market based on physical counts. Inventory in the General Fund consists of expendable supplies held for consumption and is equally offset by a nonspendable fund balance classification. The cost of inventory is recorded as an expense when purchased and adjusted at year-end.

**CITY OF SCANDIA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.E. ASSETS, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND EQUITY (Continued)

Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable and are not deemed necessary at year end. Major receivable balances for the governmental activities include charges for services, fines, fees, taxes, and special assessments. Business-type activities report utility charges as their major receivables.

In the fund financial statements, material receivables in governmental funds include revenue accruals such as taxes, franchise fees, fines and charges for service since they are usually both measurable and available. Nonexchange transactions collectible but not available are deferred in the fund financial statements in accordance with modified accrual, but not deferred in the government-wide financial statements in accordance with the accrual basis. Interest and investment earnings are recorded when earned only if paid within 60 days since they would be considered both measurable and available. Proprietary fund material receivables consist of all revenues earned at year-end and not yet received. Utility accounts receivable compose the majority of proprietary fund receivables. Allowance for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable. No allowances are deemed necessary at year end.

Capital Assets

The accounting treatment over property, plant and equipment (capital assets) depends on whether the assets are used in governmental or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and must have an estimated useful life in excess of one year.

The range of estimated useful lives by type of asset is as follows:

Buildings and Structures	40 years
Machinery and Equipment	5-25 years
Vehicles	25 years
Infrastructure	50 years

Government-wide Statements

In the government-wide financial statements, capital outlay expenditures are accounted for as capital assets. All capital assets are valued at historical cost or estimated historical cost if actual is unavailable, except for donated capital assets which are recorded at their estimated fair value at the date of donation.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. Prior to January 1, 2014, the City followed a policy under which a full year of depreciation was taken on an asset in the year of its acquisition.

Fund Financial Statements

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

**CITY OF SCANDIA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.E. ASSETS, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND EQUITY (Continued)

Long-Term Debt

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term debt consists primarily of general obligation bonds and certificates payable.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest are reported as expenditures. The accounting for proprietary funds is the same in the fund statements as it is in the government-wide statements.

Compensated Absences

It is the City's policy to permit employees to accumulate a limited amount of earned but unused leave. All leave pay is accrued when incurred in the government-wide and proprietary fund financial statements.

A liability for these amounts is reported in governmental funds only if they have matured, for example, as the result of an employee's resignation or retirement. In the event a liability is recorded in the governmental funds, General Fund resources would be used to liquidate the compensated absences.

Deferred Inflows of Resources

In addition to liabilities, the balance sheet reports a separate section for deferred inflows of resources. This element represents an acquisition of fund balance that applies to future periods and therefore will not be recognized as an inflow of resources (revenue) until that time. The City reports property taxes and special assessments as deferred inflows of resources and accordingly, these amounts are deferred and recognized as inflows of resources in the period that they become available. Because this type of unavailable revenue is only reported under a modified accrual basis of accounting, deferred inflows of resources are only reported in the governmental funds balance sheet.

Equity Classifications

Government-wide Statements

Equity is classified as net position and displayed in three components:

Net Investment in Capital Assets – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted – Consists of net position with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or 2) law through constitutional provisions or enabling legislation.

Unrestricted – Remaining balance of net position that does not meet the definition of “restricted” or “net investment in capital assets.”

It is the City's policy to consider restricted net position to its depletion before unrestricted net position is applied.

**CITY OF SCANDIA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.E. ASSETS, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND EQUITY (Continued)

Equity Classifications (Continued)

Fund Statements

Governmental Fund Financial Statements – In the fund financial statements, governmental funds report fund balances as either nonspendable, restricted, committed, assigned, or unassigned. When the City incurs an expenditure for which it may use either restricted or unrestricted fund balances, it uses restricted fund balances first unless unrestricted fund balances will have to be returned because they were not used. When the City incurs an expenditure for purposes for which amounts in any unrestricted fund balance classification could be used, it uses fund balances in the following order: Committed, assigned, unassigned.

Nonspendable – Includes amounts that cannot be spent because they are either not in spendable form, or legally or contractually required to be maintained intact. The nonspendable fund balances at December 31, 2014 consist of inventory and prepaid expenditures.

Restricted – Includes the portion of fund balance which is not available for appropriation or which has been legally segregated for a specific purpose.

Committed – Amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the City Council.

Assigned – Amounts that are constrained by the City’s intent to be used for specific purposes, but are neither restricted nor committed.

Unassigned – This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. The City has formally adopted a policy under which it strives to maintain a minimum unassigned general fund balance equal to approximately 35%-50% of annual General Fund operating expenses.

See Note 3.E. for additional disclosures.

Proprietary Fund Financial Statements – Proprietary fund equity is classified the same as in the government-wide statements, as described on the prior page.

1.F. REVENUES, EXPENDITURES, AND EXPENSES

Property Tax

Under state law, municipalities are limited in their ability to levy a property tax. The City levies its property tax for the subsequent year during the month of December. The County of Washington is the collecting agency for the levy and remits the collections to the City. In the fund financial statements, property taxes are recorded as revenue in the period levied to the extent they are collected within 60 days of year-end.

December 31 is the last day the City can certify a tax levy to the County Auditor for collection the following year. The County Auditor makes up the tax list for all taxable property in the City and applies the applicable tax rate to the tax capacity of individual properties to arrive at the actual tax for each property. The County Auditor also collects all special assessments, except for certain prepayments paid directly to the City. The County Auditor remits a list of taxes and special assessments to be collected on each parcel of property to the County Treasurer in January of each year. The County Treasurer collects all taxes and assessments, except as noted above. The County Treasurer mails copies of all real estate and personal property tax statements. Each year, property owners are required to pay one half of their real estate taxes by May 15 and the balance by October 15. Penalties and interest are assessed to property owners who do not pay their property taxes and special assessments by the due dates.

**CITY OF SCANDIA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.F. REVENUES, EXPENDITURES, AND EXPENSES (Continued)

Property Tax (Continued)

Delinquent taxes receivable include the past six years' uncollected taxes. Delinquent taxes have been offset by deferred inflows of resources for taxes not received within 60 days after year end in the fund financial statements.

Operating Revenues and Expenses

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and noncapital financing or investing activities.

Expenditures/Expenses

In the government-wide financial statements, expenses are classified by function for both governmental and business-type activities.

In the fund financial statements, expenditures are classified as follows:

Governmental Funds – By Character	Current (further classified by Function)
	Debt Service
	Capital Outlay
Proprietary Fund – By Operating and Nonoperating	

In the fund financial statements, governmental funds report expenditures of financial resources. Proprietary funds report expenses relating to use of economic resources.

Interfund Transfers

Permanent reallocations of resources between funds of the reporting entity are classified as interfund transfers. For the purpose of the Statement of Activities, all interfund transfers between individual governmental funds, as well as all interfund transfers between individual proprietary funds, have been eliminated. See additional information at Note 3.D.

1.G. RECLASSIFICATIONS

Certain amounts from 2013 have been reclassified to conform to the 2014 presentation in the Management's Discussion and Analysis section.

NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

2.A. FUND ACCOUNTING REQUIREMENTS AND DEPOSITS AND INVESTMENTS LAWS AND REGULATIONS

By its nature as a local government unit, the City is subject to various federal, state, and local laws and contractual regulations. The City complies with all state and local laws and regulations requiring the use of separate funds.

In accordance with state law, all uninsured deposits of municipal funds in financial institutions must be secured with acceptable collateral valued at the lower of market or par. Minnesota Statutes require that all deposits with financial institutions be collateralized in an amount equal to 110% of deposits in excess of FDIC or FSLIC insurance (100% if collateral pledged is irrevocable standard letters of credit issued by the Federal Home Loan Bank). The City complies with such laws.

**CITY OF SCANDIA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Continued)

2.B. BUDGETARY INFORMATION

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. All annual appropriations lapse at fiscal year-end. The City does not use encumbrance accounting.

NOTE 3 DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS

The following notes present detail information to support the amounts reported in the basic financial statements for its various assets, liabilities, deferred inflows, equity, revenues, and expenditures/expenses.

3.A. CASH, CASH EQUIVALENTS, AND INVESTMENTS

Deposits

In accordance with applicable Minnesota Statutes, the City maintains deposits at depository banks authorized by the City Council. Minnesota Statutes require that all City deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds (100% if collateral pledged is irrevocable standard letters of credit issued by the Federal Home Loan Bank). Authorized collateral in lieu of a corporate surety bond includes:

- United States government Treasury bills, Treasury notes, Treasury bonds;
- Issues of United States government agencies and instrumentalities as quoted by a recognized industry quotation service available to the government entity;
- A general obligation of a state or local government, with taxing powers, rated “A” or better;
- A revenue obligation of a state or local government, with taxing powers, rated “AA” or better;
- Unrated general obligation securities of a local government, with taxing powers, pledged as collateral against funds deposited by that same local government entity;
- Irrevocable standby letter of credit issued by a Federal Home Loan Bank accompanied by written evidence that the Federal Home Loan Bank’s public debt is rated “AA” or better by Moody’s or Standard and Poor’s; or
- Time deposits insured by any federal agency.

Minnesota Statutes require that all collateral shall be placed in safekeeping in a restricted account at a Federal Reserve Bank, or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral.

At December 31, 2014, the City’s deposits were not exposed to custodial credit risk. The City’s deposits were sufficiently covered by federal depository insurance or by collateral held by the government’s agent in the government’s name.

**CITY OF SCANDIA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 3 DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)

3.A. CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

Investments

The City may also invest idle funds as authorized by Minnesota Statutes as follows: direct obligations guaranteed by the United States or its agencies; shares of investment companies registered under the Federal Investment Company Act of 1940 that received the highest credit rating, are rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of 13 months or less; general obligations rated “A” or better; revenue obligations rated “AA” or better; general obligations of the Minnesota Housing Finance Agency rated “A” or better; bankers’ acceptances of United States banks eligible for purchase by the Federal Reserve System; commercial paper issued by United States corporations or their Canadian subsidiaries, rated of the highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less; Guaranteed Investment Contracts guaranteed by a United States commercial bank, domestic branch of a foreign bank, or a United States insurance company, and with a credit quality in one of the top two highest categories; repurchase or reverse purchase agreements and securities lending agreements with financial institutions qualified as a “depository” by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers. The City does not have any investment policies that would further limit investment choices.

At December 31, 2014, the City does not hold any investments.

CITY OF SCANDIA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2014

NOTE 3 DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)

3.B. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2014 is as follows:

	Balance at 01/01/14	Additions	Disposals	Transfers	Balance at 12/31/14
Governmental Activities:					
Capital Assets not Being Depreciated					
Land	\$ 487,735	\$ -	\$ -	\$ -	\$ 487,735
Construction In Progress	25,761	13,700	-	(39,461)	-
Total Capital Assets not Being Depreciated	513,496	13,700	-	(39,461)	487,735
Capital Assets Being Depreciated					
Buildings	2,232,670	-	-	39,461	2,272,131
Equipment	653,256	202,163	-	-	855,419
Vehicles	1,306,557	-	(66,744)	-	1,239,813
Infrastructure	9,273,769	10,150	-	-	9,283,919
Other Improvements	162,647	-	-	-	162,647
Total Capital Assets Being Depreciated	13,628,899	212,313	(66,744)	39,461	13,813,929
Less: Accumulated Depreciation					
Buildings	(809,106)	(48,656)	-	-	(857,762)
Equipment	(339,115)	(53,844)	-	-	(392,959)
Vehicles	(583,507)	(55,249)	66,744	-	(572,012)
Infrastructure	(3,177,984)	(236,211)	-	-	(3,414,195)
Other Improvements	(88,801)	(5,529)	-	-	(94,330)
Total Accumulated Depreciation	(4,998,513)	(399,489)	66,744	-	(5,331,258)
Total Capital Assets Being Depreciated, Net	8,630,386	(187,176)	-	39,461	8,482,671
Capital Assets, Net	<u>\$ 9,143,882</u>	<u>\$ (173,476)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,970,406</u>

**CITY OF SCANDIA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 3 DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)

3.B. CAPITAL ASSETS (Continued)

	Balance at 01/01/14	Additions	Disposals	Balance at 12/31/14
Business-Type Activities:				
Capital Assets Being Depreciated				
Sewer Plant	\$ 1,500,000	\$ -	\$ -	\$ 1,500,000
Equipment	-	21,275	-	21,275
Uptown Sewer	243,827	-	-	243,827
Total Capital Assets Being Depreciated	1,743,827	21,275	-	1,765,102
Less: Accumulated Depreciation				
201 Sewer Plant	(720,000)	(30,000)	-	(750,000)
Equipment	-	(236)	-	(236)
Uptown Sewer	(38,814)	(4,876)	-	(43,690)
Total Accumulated Depreciation	(758,814)	(35,112)	-	(793,926)
Total Capital Assets Being Depreciated, Net	985,013	(13,837)	-	971,176
Business-Type Activities	\$ 985,013	\$ (13,837)	\$ -	\$ 971,176

Depreciation is charged to governmental activities as follows:

General Government	\$ 14,816
Public Safety	50,029
Public Works	325,268
Parks and Recreation	9,376
Total Depreciation Expense	\$ 399,489

3.C. LONG-TERM DEBT

The reporting the City's long-term debt is segregated between the amounts to be repaid from governmental activities and amounts to be repaid from business-type activities (none). All bonds and certificates set forth below are direct obligations of the City and pledge the full faith and credit of the City.

**CITY OF SCANDIA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 3 DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)

3.C. LONG-TERM DEBT (Continued)

As of December 31, 2014, the long-term debt of the financial reporting entity consists of the following:

Governmental Activities

General Obligation Debt						
	Issue Date	Annual Payment	Interest Rate(s)	Maturity Date	Original Amount	Remaining Amount
2007 Improvement Bonds	5/07	\$125,000 - 250,000	3.65-4.10%	12/17	1,430,000	\$ 375,000
2010 Equipment Certificate	7/10	\$40,000	2.20-3.55%	2/16	200,000	80,000
2011 Equipment Certificate	7/11	\$30,000	2.75-3.95%	12/16	150,000	60,000
2013 Equipment Certificate	7/13	\$50,000 - 65,000	1.00-2.50%	7/23	570,000	515,000
Total Governmental Activities Bonds Payable						1,030,000
Bonds Due Within One Year						250,000
Bonds Due After One Year						\$ 780,000

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended December 31, 2014:

Type of Debt	Balance 1/1/14	Additions	Deductions	Balance 12/31/14	Amounts Due Within One Year
Governmental Activities:					
General Obligation Notes	\$ 1,325,000	\$ -	\$ (295,000)	\$ 1,030,000	\$ 250,000
Compensated Absences	23,977	24,231	(18,821)	29,387	29,387
Total Long-Term Debt	\$ 1,348,977	\$ 24,231	\$ (313,821)	\$ 1,059,387	\$ 279,387

Interest expense totals \$44,766 in the Statement of Activities (included in Debt Service line). Interest expense totals \$40,118 for the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds (included in the line Interest and Other Charges).

**CITY OF SCANDIA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 3 DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)

3.C. LONG-TERM DEBT (Continued)

Annual Debt Service Requirements

At December 31, 2014, the estimated annual debt service requirements to maturity, including principal and interest, are as follows for the City's governmental activities:

Years Ending December 31,	Governmental Activities		
	Principal	Interest	Total
2015	\$ 250,000	\$ 30,598	\$ 280,598
2016	250,000	22,471	272,471
2017	180,000	14,688	194,688
2018	55,000	8,573	63,573
2019	55,000	7,418	62,418
Thereafter	240,000	14,280	254,280
Totals	<u>\$ 1,030,000</u>	<u>\$ 98,028</u>	<u>\$ 1,128,028</u>

Governmental activity debt is typically funded through the Debt Service Fund.

3.D. INTERFUND TRANSACTIONS AND BALANCES

Operating transfers consist of the following for the year ended December 31, 2014:

Major Funds	Transfers Out	Transfers In		Total
		Major Funds	Non-major Funds	
		Equipment Replacement	Other Governmental	
General	\$ 300,000	\$ 100,000	\$ 200,000	\$ 300,000

Transfers are used to (a) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget require to expend them and to (b) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

The interfund balances are as follows:

Long-Term Advances		Amount	Reason
Due To Fund	Due From Fund		
Capital Improvement	Uptown Sewer	\$ 34,308	Sewer improvements
Short-Term Balances			
Due To Fund	Due From Fund		
General Fund	Uptown Sewer	2,300	Eliminate negative cash
Total Interfund Balances		<u>\$ 36,608</u>	

The Uptown Sewer Fund monies owed to the General Fund and Capital Improvement Fund will be repaid as future sewer charges are collected and the cash flows become available.

**CITY OF SCANDIA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 3 DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)

3.E. FUND EQUITY

At December 31, 2014, governmental fund equity consists of the following:

General Fund	
Nonspendable - Prepaids and Inventory	\$ 9,285
Restricted for Road Maintenance	124,673
Restricted for Erickson Ballfield	10,625
Unassigned	<u>1,571,307</u>
Total General Fund Balance	<u>\$ 1,715,890</u>
Debt Service Fund	
Restricted for Debt Service	<u>\$ 350,769</u>
Equipment Replacement Fund	
Restricted for Equipment Replacement	9,453
Assigned for Equipment Replacement	<u>441,570</u>
Total Equipment Replacement Fund Balance	<u>\$ 451,023</u>
Other Governmental Funds	
Nonspendable - Advance to Other Fund	\$ 34,308
Committed for Economic Development	760
Committed for Capital Improvements	301,157
Committed for Local Road Improvements	128,137
Assigned for Park Capital Improvements	1,067
Assigned for Local Road Improvements	<u>200,000</u>
Total Other Governmental Funds Balance	<u>\$ 665,429</u>

NOTE 4 OTHER NOTES

4.A. EMPLOYEE DEFINED BENEFIT PENSION PLANS - STATEWIDE

Plan Description

All full-time and certain part-time employees of the City of Scandia are covered by defined benefit 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, Chapters 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 five 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 THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 4 OTHER NOTES (Continued)

4.A. EMPLOYEE DEFINED BENEFIT PENSION PLANS - STATEWIDE (Continued)

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 percent of average salary for each of the first 10 years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first 10 years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For all GERF 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.

PERA issues a publicly available financial report that includes financial statements and required supplementary information for GERF. 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.

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. GERF Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.25%, respectively, of their annual covered salary in 2014. In 2014, the City was required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan GERF members and 7.25% for Coordinated Plan GERF members. The City's contributions to the General Employees Retirement Fund for the years ending December 31, 2014, 2013, and 2012 total \$24,373, \$21,074, and \$20,284, respectively. The City's contributions are equal to the contractually required contributions for each year as set by State Statute. Contribution rates will increase on January 1, 2015 in the Coordinated Plan (6.5% for members and 7.5% for employers).

4.B. EMPLOYEE DEFINED CONTRIBUTION PENSION PLAN - STATEWIDE

The council members of the City of Scandia 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.

CITY OF SCANDIA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2014

NOTE 4 OTHER NOTES (Continued)

4.B. EMPLOYEE DEFINED CONTRIBUTION PENSION PLAN - STATEWIDE (Continued)

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 percent 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 percent of employer contributions and twenty-five hundredths of one percent of the assets in each member's account annually.

Total contributions made by the City during fiscal year 2014 amount to \$824.

4.C. STATEWIDE VOLUNTEER FIREFIGHTER RETIREMENT PLAN

Plan Description

Beginning January 1, 2011, the City joined the Voluntary Statewide Volunteer Firefighter Retirement Plan (the Plan) administered by the Public Employees Retirement Association (PERA). The plan is an agent lump-sum defined benefit plan. Plan assets are managed by the Minnesota State Board of Investment. The Plan is voluntary and open to fire departments as a replacement of their existing volunteer firefighter retirement plan. It is also open to municipalities currently without a volunteer firefighter retirement plan. The Plan is codified as Minnesota Statutes Chapter 353G.

The lump sum benefits payable from the Plan are funded by existing fire state aid allocated to a municipality, additional municipal contributions, as applicable, and earnings on the investment of these funds. Each participating entity will have a separate Entity Account in which the assets necessary to fund the benefits will be maintained.

PERA performs annual calculations for each Entity Account to assess the level of funding needed to maintain assets sufficient to pay the benefits being earned by the participating entity's volunteer firefighters. The calculations will resemble the procedure already defined in law for use by all existing volunteer fire relief associations. Required contributions for the coming year will be based on service credit data provided to PERA in March of each year by each participating entity's fire chief. The City is able to voluntarily contribute above and beyond the required contribution amount.

Retirement Benefits

The Plan provides for the payment of lump sum retirement benefits that are based on a specific dollar value paid for each year of credited service accumulated by a volunteer firefighter who terminates service and meets the minimum requirements for receipt of the benefits. The dollar value payable per year of service is determined by the sponsoring municipality or entity at the time an election to participate in the Plan is made, selected from 20 possible benefit levels. An entity may elect to increase the benefit level after joining the Plan. The benefit level approved by the City is \$2,500 per year of service. To be eligible for a benefit, a firefighter must:

- Be at least 50 years old;
- Be vested, which means having acquired a minimum of 5 years of "good-time" service credit in the Plan; and
- Have severed his or her employment relationship with the fire department for a minimum of 30 days.

**CITY OF SCANDIA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 4 OTHER NOTES (Continued)

4.C. STATEWIDE VOLUNTEER FIREFIGHTER RETIREMENT PLAN (Continued)

Retirement Benefits (Continued)

A full retirement benefit is payable to a firefighter with 20 years of service. Firefighters retiring with fewer than 20 but at least 5 years of service are eligible for a percentage of a full benefit. Former members of the fire department who were vested at the time they left the department are also entitled to benefits when they attain age 50. Total employer contributions made during fiscal year 2014 are as follows:

City Contributions	\$ 18,259
State Aid	<u>24,368</u>
Total Contributions	<u>\$ 42,627</u>

4.D. 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. To manage these risks, the City purchases commercial insurance. The City retains risk for the deductible portions of the insurance. The amounts of these deductibles are considered immaterial to the financial statements. There were no significant reductions in insurance from the previous year settlements in excess of insurance for any of the past two years.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities, if any, include an amount for claims that have been incurred but not reported. The City's management is not aware of any incurred but no reported claims.

4.E. COMMITMENTS

Law Enforcement Services

The City receives law enforcement services under an agreement with Washington County. Such agreement automatically renews on an annual basis and calls for the City to compensate the County based on the actual costs incurred while providing services under the agreement. Based on the 2015 contract budget, expenditures anticipated under this agreement for 2015 are estimated at \$110,795.

201 Sewer System Upgrades

During 2014, the City accepted a proposal for upgrades to the 201 Sewer System in the amount of \$94,918. Such project is expected to be completed in 2015.

4.F. NEW ACCOUNTING STANDARDS

Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* will be implemented in the next fiscal year. The effect of the implementation will reflect the City's share of the Public Employees Retirement Association and Fire Relief Association net pension liability on the Statement of Net Position. The effect on net position will likely be significant.

REQUIRED SUPPLEMENTARY INFORMATION

Required supplementary information includes financial information and disclosures that are required by the GASB but are not considered a part of the basic financial statements. Such information includes:

Budgetary Comparison Schedule-General Fund

**CITY OF SCANDIA, MINNESOTA
BUDGETARY COMPARISON SCHEDULE-GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2014**

	Budget Amounts- Original and Final	Actual Amounts Budgetary Basis	Variance with Final Budget Over (Under)
RESOURCES (INFLOWS):			
Taxes	\$ 1,642,266	\$ 1,650,184	\$ 7,918
Licenses, Permits, & Fees	53,795	83,659	29,864
Intergovernmental	34,583	43,926	9,343
Charges for Services	169,244	227,736	58,492
Fines	16,000	13,468	(2,532)
Investment Income	7,100	4,947	(2,153)
Miscellaneous	16,010	46,277	30,267
AMOUNTS AVAILABLE	1,938,998	2,070,197	131,199
CHARGES TO APPROPRIATIONS (OUTFLOWS):			
General Government:			
Mayor and Council	18,839	18,406	(433)
Planning and Buildings	166,200	66,885	(99,315)
Elections	6,110	5,827	(283)
General Government	342,043	320,497	(21,546)
Public Safety:			
Police	122,068	121,113	(955)
Fire	263,466	215,200	(48,266)
Public Works	819,035	798,551	(20,484)
Parks and Recreation	95,738	102,243	6,505
Capital Outlay	5,500	-	(5,500)
Transfers Out	300,000	300,000	-
TOTAL CHARGES	2,138,999	1,948,722	(190,277)
BUDGETARY CHANGE IN FUND BALANCE	\$ (200,001)	\$ 121,475	\$ 321,476

OTHER SUPPLEMENTARY INFORMATION

Other supplementary information includes financial statements and schedules not required by GASB, nor a part of the basic financial statements, but are presented for purposes of additional analysis.

Such statements and schedules include:

- Combining Statements – Nonmajor Governmental Funds
- Combining Schedules – Nonmajor Debt Service Fund

**CITY OF SCANDIA, MINNESOTA
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 DECEMBER 31, 2014**

	<u>Economic Development Authority Fund</u>	<u>Capital Improvement Fund</u>	<u>Park Capital Improvement Fund</u>	<u>Local Road Improvement Fund</u>	<u>Total Nonmajor Governmental Funds</u>
ASSETS					
Cash and Cash Equivalents	\$ 760	\$ 301,157	\$ 1,067	\$ 328,137	\$ 631,121
Advance to Other Fund	<u>-</u>	<u>34,308</u>	<u>-</u>	<u>-</u>	<u>34,308</u>
TOTAL ASSETS	<u>\$ 760</u>	<u>\$ 335,465</u>	<u>\$ 1,067</u>	<u>\$ 328,137</u>	<u>\$ 665,429</u>
FUND BALANCES					
Nonspendable	\$ -	\$ 34,308	\$ -	\$ -	\$ 34,308
Committed	760	301,157	-	128,137	430,054
Assigned	<u>-</u>	<u>-</u>	<u>1,067</u>	<u>200,000</u>	<u>201,067</u>
TOTAL FUND BALANCES	<u>\$ 760</u>	<u>\$ 335,465</u>	<u>\$ 1,067</u>	<u>\$ 328,137</u>	<u>\$ 665,429</u>

CITY OF SCANDIA, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014

	Economic Development Authority Fund	Capital Improvement Fund	Park Capital Improvement Fund	Local Road Improvement Fund	Total Nonmajor Governmental Funds
REVENUES					
Taxes	\$ 1,000	\$ 94,400	\$ -	\$ 127,704	\$ 223,104
Charges for Services	-	-	3,000	-	3,000
Investment Income	-	699	12	433	1,144
TOTAL REVENUES	<u>1,000</u>	<u>95,099</u>	<u>3,012</u>	<u>128,137</u>	<u>227,248</u>
EXPENDITURES					
Current:					
Public Works	-	1,129	-	-	1,129
Economic Development	240	-	-	-	240
Capital Outlay	-	26,036	9,929	-	35,965
TOTAL EXPENDITURES	<u>240</u>	<u>27,165</u>	<u>9,929</u>	<u>-</u>	<u>37,334</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	760	67,934	(6,917)	128,137	189,914
OTHER FINANCING SOURCES					
Operating Transfers In	-	-	-	200,000	200,000
NET CHANGE IN FUND BALANCES	760	67,934	(6,917)	328,137	389,914
FUND BALANCES - BEGINNING	<u>-</u>	<u>267,531</u>	<u>7,984</u>	<u>-</u>	<u>275,515</u>
FUND BALANCES - ENDING	<u>\$ 760</u>	<u>\$ 335,465</u>	<u>\$ 1,067</u>	<u>\$ 328,137</u>	<u>\$ 665,429</u>

**CITY OF SCANDIA, MINNESOTA
SUPPLEMENTAL COMBINING BALANCE SHEET
DEBT SERVICE FUND
DECEMBER 31, 2014**

	2007 Improvement Bond	2000 Fire Hall Bond	2010 Equipment Certificates	2011 Equipment Certificates	2013 Equipment Certificates	Total Debt Service
ASSETS						
Cash and Cash Equivalents	\$ 287,053	\$ -	\$ 50,930	\$ 5,099	\$ 8,119	\$ 351,201
Property Taxes Receivable	3	-	-	-	-	3
Assessments Receivable	93,423	-	-	-	-	93,423
TOTAL ASSETS	<u>\$ 380,479</u>	<u>\$ -</u>	<u>\$ 50,930</u>	<u>\$ 5,099</u>	<u>\$ 8,119</u>	<u>\$ 444,627</u>
LIABILITIES						
Accounts Payable	\$ -	\$ -	\$ -	\$ -	\$ 435	\$ 435
DEFERRED INFLOWS OF RESOURCES						
Unavailable Revenue: Special Assessments	93,423	-	-	-	-	93,423
FUND BALANCE						
Restricted	287,056	-	50,930	5,099	7,684	350,769
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 380,479</u>	<u>\$ -</u>	<u>\$ 50,930</u>	<u>\$ 5,099</u>	<u>\$ 8,119</u>	<u>\$ 444,627</u>

CITY OF SCANDIA, MINNESOTA
SUPPLEMENTAL COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2014

	2007 Improvement Bond	2000 Fire Hall Bond	2010 Equipment Certificates	2011 Equipment Certificates	2013 Equipment Certificates	Total Debt Service
REVENUES						
Taxes	\$ 134,609	\$ 42,852	\$ 45,297	\$ 34,965	\$ 69,783	\$ 327,506
Special Assessments	21,240	-	-	-	-	21,240
Investment Income	698	49	129	14	-	890
TOTAL REVENUES	<u>156,547</u>	<u>42,901</u>	<u>45,426</u>	<u>34,979</u>	<u>69,783</u>	<u>349,636</u>
EXPENDITURES						
Debt Service:						
Principal	130,000	40,000	40,000	30,000	55,000	295,000
Interest and Other Charges	20,388	2,135	3,330	3,300	12,390	41,543
TOTAL EXPENDITURES	<u>150,388</u>	<u>42,135</u>	<u>43,330</u>	<u>33,300</u>	<u>67,390</u>	<u>336,543</u>
EXCESS OF REVENUES OVER EXPENDITURES	6,159	766	2,096	1,679	2,393	13,093
OTHER FINANCING SOURCES (USES)						
Operating Transfers In	19,321	-	-	-	-	19,321
Operating Transfers Out	-	(19,321)	-	-	-	(19,321)
TOTAL OTHER FINANCING SOURCES (USES)	<u>19,321</u>	<u>(19,321)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	25,480	(18,555)	2,096	1,679	2,393	13,093
FUND BALANCE - BEGINNING	<u>261,576</u>	<u>18,555</u>	<u>48,834</u>	<u>3,420</u>	<u>5,291</u>	<u>337,676</u>
FUND BALANCE - ENDING	<u>\$ 287,056</u>	<u>\$ -</u>	<u>\$ 50,930</u>	<u>\$ 5,099</u>	<u>\$ 7,684</u>	<u>\$ 350,769</u>

OTHER REPORTS

**INDEPENDENT AUDITORS' 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**

March 24, 2015

Honorable Mayor and City Council
City of Scandia
Scandia, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Scandia (the City) as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City of Scandia's basic financial statements, and have issued our report thereon dated March 24, 2015.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying *Schedule of Findings and Responses*, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiencies described in the accompanying *Schedule of Findings and Responses* to be material weaknesses: 2013-1 and 2013-3.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiency described in the accompanying *Schedule of Findings and Responses* to be a significant deficiency: 2013-2.

St. Cloud

630 Roosevelt Rd. Ste. 201
P.O. Box 1496
St. Cloud, MN 56302
320.251.0286

Little Falls

109 E. Broadway
P.O. Box 365
Little Falls, MN 56345
320.632.6311

Albany

115 6th St.
P.O. Box 268
Albany, MN 56307
320.845.2940

Maple Lake

220 Hwy. 55 North, Ste. 4
P.O. Box 385
Maple Lake, MN 55358
320.963.5414

Monticello

114 W. 3rd St.
P.O. Box 755
Monticello, MN 55362
763.295.5070

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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*.

City's Response to Findings

The City of Scandia's response to the findings identified in our audit is described in the accompanying *Schedule of Findings and Responses*. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Schlenner Wenner & Co.".

SCHLENNER WENNER & CO.

St. Cloud, Minnesota

**CITY OF SCANDIA, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2014**

Finding 2013-1 Limited Segregation of Duties

Condition: The City has limited segregation of accounting duties.

Criteria: The basic premise of proper segregation of duties is that no one employee should have access to both physical assets and the related accounting records or to all phases of the transaction.

Cause: There are a limited number of employees.

Effect: The City's lack of adequate segregation of accounting duties could adversely affect the City's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

Recommendation: Although the number of employees may not be large enough to eliminate this deficiency, we recommend that the City evaluate current procedures and segregate where possible and implement compensating controls.

Management's Response: Management agrees with our recommendation.

Finding 2013-2 Financial Statement Preparation

Condition: Schlenner Wenner & Co. drafted the audited financial statements and related footnote disclosures for the City. These financial statements, including disclosures, were reviewed by management and management has taken responsibility for them.

Criteria: Internal controls over financial reporting should be in place to provide for the preparation of financial statements on an annual basis.

Cause: We believe management would require additional training in order to prepare the financial statements and year-end adjustments internally.

Effect: The outsourcing of these services is not unusual in entities of the size of the City of Scandia and is the result of management's cost benefit decision to rely on our expertise rather than incurring this internal resource cost. However, errors can occur in the financial statements that may not be detected by management.

Recommendation: While the City may not have adequate controls in place to eliminate this finding, the City should adopt a formal written internal control policy to document its annual review of the financial statements and year-end adjustments.

Management's Response: Management agrees with our recommendation.

**CITY OF SCANDIA, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2014**

Finding 2013-3 Material Audit Adjustments

Condition: Audit adjustments were required to correct material misstatements identified in the trial balance presented for the audit.

Criteria: The City is required to report accurate financial information.

Cause: The City has not established controls to ensure all accounts are adjusted to their proper year-end balances in accordance with accounting principles generally accepted in the United States of America.

Effect: The misstatements in the trial balance presented for the audit resulted in the need to record audit adjustments to achieve fair financial statement presentation under accounting principles generally accepted in the United States of America.

Recommendation: We recommend management perform a thorough review of the trial balance prior to the audit and ensure all accounts have been properly adjusted at year-end.

Management's Response: Management agrees with our recommendation.

**INDEPENDENT AUDITORS' REPORT ON
MINNESOTA LEGAL COMPLIANCE**

March 24, 2015

Honorable Mayor and City Council
City of Scandia
Scandia, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, 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, 2014, and the related notes to the financial statements, and have issued our report thereon dated March 24, 2015.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minnesota Statute Section 6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for tax increment financing as the City does not have any tax increment districts.

In connection with our audit, nothing came to our attention that caused us to believe that the City failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City's noncompliance with the above referenced provisions.

This report is intended for the information and use of the City Council and management of the City of Scandia and the State Auditor and is not intended to be and should not be used by anyone other than these specified parties.

Schlenner Wenner & Co.

SCHLENNER WENNER & CO.
St. Cloud, Minnesota

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