

**CITY OF SCANDIA, MINNESOTA**  
**AUDITED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015**

**SCHLENNER WENNER & CO.**  
**Certified Public Accountants**  
**& Business Consultants**

**CITY OF SCANDIA, MINNESOTA  
TABLE OF CONTENTS**

**INTRODUCTORY SECTION:**

**CITY COUNCIL AND OFFICIALS** ..... 1

**FINANCIAL SECTION:**

**INDEPENDENT AUDITORS' REPORT** ..... 2

**REQUIRED SUPPLEMENTARY INFORMATION:**

Management's Discussion and Analysis ..... 5

**BASIC FINANCIAL STATEMENTS:**

*Government-wide Financial Statements*

Statement of Net Position ..... 15

Statement of Activities ..... 16

*Fund Financial Statements*

Balance Sheet-Governmental Funds ..... 17

Reconciliation of the Balance Sheet-Governmental Funds  
to the Statement of Net Position ..... 18

Statement of Revenues, Expenditures, and  
Changes in Fund Balances-Governmental Funds ..... 19

Reconciliation of Changes in Fund Balance of Governmental  
Funds to the Statement of Activities ..... 20

Statement of Net Position-Proprietary Funds ..... 21

Statement of Revenues, Expenses, and  
Changes in Net Position-Proprietary Funds ..... 22

Statement of Cash Flows-Proprietary Funds ..... 23

Statement of Fiduciary Net Position ..... 24

Notes to the Basic Financial Statements ..... 25

**REQUIRED SUPPLEMENTARY INFORMATION:**

Budgetary Comparison Schedule-General Fund ..... 49

Schedule of City's Proportionate Share of Net Pension Liability ..... 50

Schedule of City Contributions ..... 50

Schedule of Changes in Net Pension Liability (Asset) ..... 51

**OTHER SUPPLEMENTARY INFORMATION:**

Supplemental Combining Balance Sheet-Debt Service Fund ..... 52

Supplemental Combining Schedule of Revenues, Expenditures, and  
Changes in Fund Balance-Debt Service Fund ..... 53

**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* ..... 54

Schedule of Findings and Responses ..... 56

Independent Auditors' Report on Minnesota Legal Compliance ..... 57

**INTRODUCTORY  
SECTION**

**CITY OF SCANDIA, MINNESOTA  
CITY COUNCIL AND OFFICIALS  
FOR THE YEAR ENDED DECEMBER 31, 2015**

**CITY COUNCIL**

Term Expires

Randall Simonson	Mayor	January 1, 2017
Bob Hegland	Council Member	January 1, 2019
Dan Lee	Council Member	January 1, 2017
Chris Ness	Council Member	January 1, 2017
Jim Schneider	Council Member	January 1, 2019

**CITY OFFICIALS**

Neil Soltis	City Administrator
Colleen Firkus	Treasurer

**FINANCIAL  
SECTION**

## INDEPENDENT AUDITORS' REPORT

April 5, 2016

Honorable Mayor and City Council  
City of 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, 2015, 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

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

## **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, 2015, 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.

## **Emphasis of Matter**

### *Change in Accounting Principle*

As discussed in Note 1.G. to the financial statements, the City of Scandia, Minnesota has adopted Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions*, and Governmental Accounting Standards Board Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Our opinions are not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Budgetary Comparison information, Schedules of City's Proportionate Share of Net Pension Liability and City Contributions, and Schedule of Changes in Net Pension Liability (Asset) 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 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 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 April 5, 2016 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 April 5, 2016, on our consideration of City of Scandia's compliance with provisions of the *Minnesota Legal Compliance Audit Guide for Cities*, 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.*

**SCHLENNER WENNER & CO.**

St. Cloud, Minnesota

**REQUIRED SUPPLEMENTARY  
INFORMATION**

**CITY OF SCANDIA, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2015**

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, 2015. Please read it in conjunction with the independent auditor's report on page two and the City's financial statements, which begin on page fifteen.

**FINANCIAL HIGHLIGHTS**

- The City's net position increased \$630,204 compared to the prior year, primarily due to the City's investment of revenues into infrastructure/assets, net of depreciation, in the amount of approximately \$486,000. This has contributed to the current year increase in net position because these new assets will be depreciated (expensed) over future years. In addition, there was a net reduction in the City's outstanding debt of \$285,000.
- The City's net position decreased by \$216,840 due to a change in accounting principle, which recognizes the City's share of the net pension liability and net pension asset for the General Employee Retirement Fund and Statewide Volunteer Firefighter's plan administered by the State. The recognition of this pension liability is the primary reason for the increase in Current & Other Liabilities in Table 1 on page 7.
- The City's General Fund generated more revenue than budgeted of \$126,601. Expenditures were less than budgeted by \$200,491, including transfers to other funds which exceeded budgeted amounts by \$11,349.
- The unassigned fund balance in the General Fund of \$1,737,134 is 82% of the 2016 General Fund budgeted expenditures.
- In the City's Sewer utility funds, revenues increased \$1,382 (or 1.50 percent), while operating expenses decreased \$13,051 (or 9.96 percent).
- The City's utility funds operated at a net loss of \$31,787, with the cash position decreasing \$102,788, due to the purchase of capital assets.

**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 fifteen and sixteen) 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 seventeen. 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 page seven. 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, adjusted for deferred outflows/inflows) 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.

**CITY OF SCANDIA, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2015**

**USING THIS ANNUAL REPORT** (Continued)

**Reporting the City as a Whole** (Continued)

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, planning, 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.

**Reporting the City's Most Significant Funds**

Our analysis of the City's major funds begins on page nine. The fund financial statements begin on page seventeen 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 proprietary 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.

**CITY OF SCANDIA, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2015**

**THE CITY AS A WHOLE**

The City's combined net position increased \$630,204 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	
	2015	2014	2015	2014	2015	2014
<b>Assets</b>						
Current and Other Assets	\$ 3,450,395	\$ 3,478,568	\$ 39,548	132,766	\$ 3,489,943	\$ 3,611,334
Net Capital Assets	<u>9,456,193</u>	<u>8,970,406</u>	<u>1,036,390</u>	<u>971,176</u>	<u>10,492,583</u>	<u>9,941,582</u>
Total Assets	12,906,588	12,448,974	1,075,938	1,103,942	13,982,526	13,552,916
Deferred Outflows of Resources	39,424	-	3,210	-	42,634	-
<b>Liabilities</b>						
Current & Other Liabilities	475,490	188,162	21,844	5,727	497,334	193,889
Long-Term Debt Outstanding	<u>745,000</u>	<u>1,030,000</u>	<u>-</u>	<u>-</u>	<u>745,000</u>	<u>1,030,000</u>
Total Liabilities	1,220,490	1,218,162	21,844	5,727	1,242,334	1,223,889
Deferred Inflows of Resources	<u>39,430</u>	<u>-</u>	<u>1,005</u>	<u>-</u>	<u>40,435</u>	<u>-</u>
<b>Net Position</b>						
Net Investment in						
Capital Assets	8,711,193	7,940,406	1,036,390	971,176	9,747,583	8,911,582
Restricted	195,126	580,833	-	-	195,126	580,833
Unrestricted	<u>2,779,773</u>	<u>2,709,573</u>	<u>19,909</u>	<u>127,039</u>	<u>2,799,682</u>	<u>2,836,612</u>
Total Net Position	<u>\$ 11,686,092</u>	<u>\$ 11,230,812</u>	<u>\$ 1,056,299</u>	<u>\$ 1,098,215</u>	<u>\$ 12,742,391</u>	<u>\$ 12,329,027</u>

**CITY OF SCANDIA, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2015**

**THE CITY AS A WHOLE** (Continued)

The net position of the City's governmental activities increased by \$654,927 (or 5.83 percent) as a result of the investment in capital assets and other factors previously discussed.

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 \$70,200 (or 2.59 percent) compared to the prior year.

The net position of the City's business-type activities decreased by \$24,723 (or 2.25 percent), with the unrestricted net position decreasing from \$127,039 to \$19,909 due to the use of unrestricted funds for capital outlays, which reallocated a greater portion of net position into Net Investment in Capital Assets. Operations were comparable to the prior year.

**Table 2  
Changes in Net Position**

	Governmental Activities		Business-Type Activities		Total Government	
	2015	2014	2015	2014	2015	2014
<b>Revenues</b>						
Charges for Services	\$ 227,132	\$ 327,863	\$ 86,213	\$ 86,187	\$ 313,345	\$ 414,050
Grants and Contributions	55,628	51,849	6,721	5,278	62,349	57,127
Taxes	2,264,524	2,190,448	-	-	2,264,524	2,190,448
Intergovernmental	87,236	19,558	-	-	87,236	19,558
Investment Income	9,875	8,294	343	430	10,218	8,724
Other	23,652	35,709	-	-	23,652	35,709
<b>Total Revenues</b>	<b>2,668,047</b>	<b>2,633,721</b>	<b>93,277</b>	<b>91,895</b>	<b>2,761,324</b>	<b>2,725,616</b>
<b>Program Expenses</b>						
General Government	499,996	426,431	-	-	499,996	426,431
Public Safety	340,909	391,752	-	-	340,909	391,752
Public Works	1,050,232	1,124,948	-	-	1,050,232	1,124,948
Parks and Recreation	94,646	111,619	-	-	94,646	111,619
Economic Development	365	240	-	-	365	240
Debt Service	26,972	46,191	-	-	26,972	46,191
201 Sewer	-	-	101,179	113,098	101,179	113,098
Uptown Sewer	-	-	16,821	17,953	16,821	17,953
<b>Total Expenses</b>	<b>2,013,120</b>	<b>2,101,181</b>	<b>118,000</b>	<b>131,051</b>	<b>2,131,120</b>	<b>2,232,232</b>
<b>Change in Net Position</b>	<b>\$ 654,927</b>	<b>\$ 532,540</b>	<b>\$ (24,723)</b>	<b>\$ (39,156)</b>	<b>\$ 630,204</b>	<b>\$ 493,384</b>

The City's total revenues increased by \$35,708 (or 1.31 percent), largely due to a decrease in charges for services offset partially by various increases in other areas. Significant changes included:

- The decrease in charges for services was related to a 1-time payment of escrow charges totaling \$143,956 in 2014.
- Building permits increased by \$49,397 over 2014 (65%).
- Property taxes increased by \$74,076 (3.3%).
- State aids received increased by \$35,708 (361%).

**CITY OF SCANDIA, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2015**

**THE CITY AS A WHOLE** (Continued)

The total cost of all programs and services decreased by \$101,112 (or 4.53 percent), primarily due to a decrease of \$74,716 in Public works expenditures for contracted road maintenance, ice and snow control, and fuel costs.

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

**Governmental Activities**

Revenue for the City's governmental activities increased \$34,326 (or 1.30 percent), while total expenses decreased \$88,061 (or 4.19 percent). Revenues and expenses were generally consistent year to year, with the exception of the significant variances previously noted.

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	
	2015	2014	2015	2014
General Government	\$ 499,996	\$ 426,431	\$ 331,753	\$ 170,535
Public Safety	340,909	391,752	262,823	326,332
Public Works	1,050,232	1,124,948	1,044,870	1,109,093
Parks and Recreation	94,646	111,619	63,577	69,078
Economic Development	365	240	365	240
Debt Service	26,972	46,191	26,972	46,191
Totals	<u>\$ 2,013,120</u>	<u>\$ 2,101,181</u>	<u>\$ 1,730,360</u>	<u>\$ 1,721,469</u>

**Business-type Activities**

Revenues of the City's business-type activities (see Table 2) increased by \$1,382 (or 1.50 percent). Expenses decreased by \$13,051 (or 9.96 percent).

**THE CITY'S FUNDS**

**Governmental Funds**

As the City completed the year, its governmental funds (as presented in the balance sheet on page seventeen) reported a combined fund balance of \$3,075,052. This is a decrease of \$108,059 (or 3.39 percent) from the prior year. This decrease 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:

- The City utilized \$250,000 of the balance in the debt service fund to pay off the remaining debt used to finance the 2007 road improvement program.
- Building permits increased by \$49,397 (65%) over 2014 and \$60,968 over the 2015 budget.

**CITY OF SCANDIA, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2015**

**THE CITY'S FUNDS** (Continued)

**Governmental Funds** (Continued)

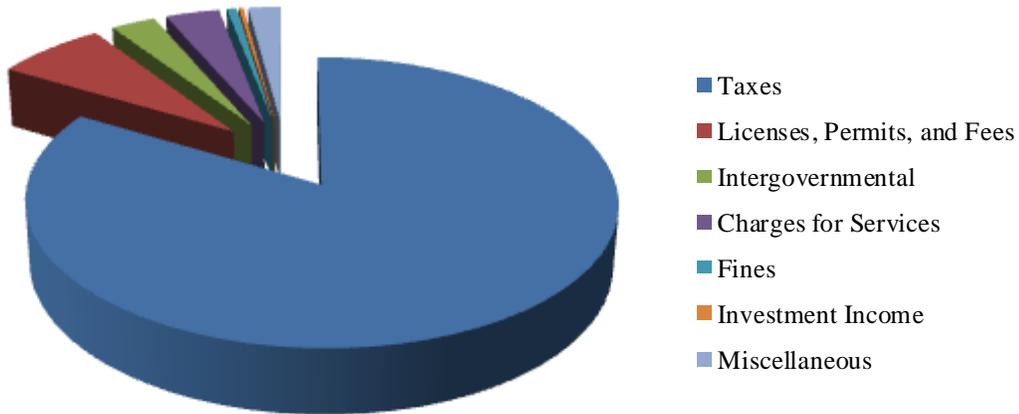
- State aids received increased by \$35,708 with total state aids exceeding the budget by \$44,878.
- In 2014, property tax revenues of \$127,704 were recorded in the Local Road Improvement Fund, but no amounts were expended from this fund. In 2015, revenues and transfers from other funds exceeded expenditures by \$74,819. These funds will be used to help fund the 2016 road reconstruction projects.

Other operations were comparable to the prior year. The following is a summary of the City's major governmental funds:

Major Funds	Fund Balance December 31,		Increase (Decrease)
	2015	2014	
<b>General</b>	\$ 1,746,587	1,715,890	\$ 30,697

The fund balance of the General Fund increased by \$30,697 as a result of current year operations. In comparison to the prior year, revenues and expenditures decreased approximately 6.09 and 5.57 percent, respectively.

**General Fund Revenue**



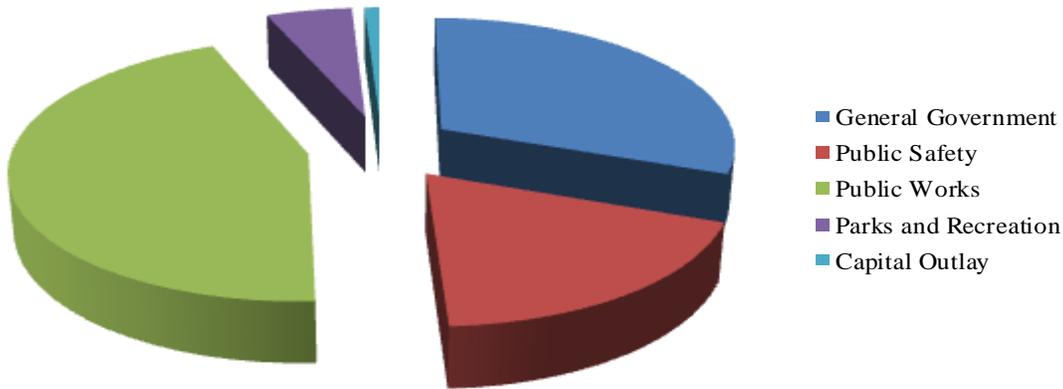
The City receives the majority of its funding in the General Fund in the form of taxes (83 percent) and licenses, permits, and fees (7 percent). Overall, the City's General Fund revenues were comparable to the prior year.

**CITY OF SCANDIA, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2015**

**THE CITY'S FUNDS** (Continued)

**Governmental Funds** (Continued)

**General Fund Expenditures**



A significant portion of the City's General Fund expenditures are used for public works (45 percent). Remaining expenditures are used primarily on public safety (19 percent) and general government operations (31 percent). Overall, the City's General Fund expenditures were comparable to the prior year.

General Fund Budgetary Highlights

The City's General Fund generated more revenue than budgeted of \$126,601. Expenditures were less than those budgeted by \$200,491. See additional detail pertaining to differences between budgeted and actual amounts within the General Fund previously discussed and at the Budgetary Comparison Schedule on page forty-nine.

Major Funds	Fund Balance December 31,		Increase (Decrease)
	2015	2014	
<b>Debt Service</b>	\$ 113,260	\$ 350,769	\$ (237,509)

The subfunds that comprise the Debt Service Fund had a cash balance of \$112,793 at December 31, 2015. The Council has designated the cash balance (\$42,467) and the deferred special assessments receivable (\$76,301) in the 2007 Road Reconstruction project subfund be utilized to fund future road improvement projects. The fund balance of the Debt Service Fund decreased by \$237,509. This decrease is the result of the City using excess funds available in the Debt Service Fund to prepay the remaining balance due on the 2007 Improvement Bonds.

<b>Equipment Replacement Fund</b>	\$ 470,608	\$ 451,023	\$ 19,585
-----------------------------------	------------	------------	-----------

At December 31, 2015 the Equipment Replacement Fund has a cash balance of \$470,608. The fund balance of the Equipment Replacement Fund increased by \$19,585, primarily due to a transfer from the City's General Fund. Significant activity in this fund during 2015 includes the City's issuance of 2015 Equipment Certificates in the amount of \$215,000, for the purpose of financing the acquisition of a fire tanker.

**CITY OF SCANDIA, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2015**

**THE CITY'S FUNDS** (Continued)

**Governmental Funds** (Continued)

Major Funds	Fund Balance December 31,		Increase (Decrease)
	2015	2014	
<b>Capital Improvement Fund</b>	\$ 356,057	\$ 335,465	\$ 20,592

At December 31, 2015 the Capital Improvement Fund has a cash balance of \$289,389. The fund balance increased by \$20,592, primarily due to the accumulation of funds to be spent for pending capital improvements.

<b>Park Capital Improvement Fund</b>	\$ (19,812)	\$ 1,067	\$ (20,879)
--------------------------------------	-------------	----------	-------------

At December 31, 2015 the Park Capital Improvement Fund has a cash balance of \$15,188. The fund balance decreased by \$20,879, primarily due to the outlay of funds for a parking lot at Lilleskogen Park.

<b>Local Road Improvement Fund</b>	\$ 402,956	\$ 328,137	\$ 74,819
------------------------------------	------------	------------	-----------

At December 31, 2015 the Local Road Improvement Fund has a cash balance of \$425,608. The fund balance increased by \$74,819, primarily due to the transfer of funds from the General Fund to assist in financing the Quinnell Avenue Road Reconstruction project.

**Proprietary Funds**

As the City completed the year, its business-type activities (as presented in the statement of net position on page twenty-one) reported a combined net position of \$1,056,299. This is a decrease of \$24,723 from the prior year, excluding the impact of adopting new accounting principles in the current year. See Note 1.G. in the Notes to the Basic Financial Statements for further information on new accounting principles adopted. Other operations were comparable to the prior year. The following is a summary of the City's major proprietary funds:

Major Funds	Net Position December 31,		Change in Accounting Principle	Increase (Decrease)
	2015	2014		
<b>201 Sewer Fund</b>	\$ 892,727	\$ 932,026	\$ (13,214)	\$ (26,085)

The 201 Sewer Fund provides sanitary sewer services to customers in the Anderson-Erickson and Bliss subdivisions. At December 31, 2015 the fund had a cash balance of \$51,185 with a decrease in cash of \$102,692 for the year. The decrease in cash is attributable to the replacement of controls for the Anderson-Erickson drainfield. The fund's net position decreased \$26,085 during the current year as a result of operating expenses exceeding revenues from charges for services and other activities.

<b>Uptown Sewer Fund</b>	\$ 163,572	\$ 166,189	\$ (3,979)	\$ 1,362
--------------------------	------------	------------	------------	----------

The Uptown Sewer Fund provides sanitary sewer services to customers near the Olinda Trail / Oakhill intersection. At December 31, 2015 the fund had a negative cash balance of \$144 (reclassified as due to the General Fund) with a decrease in cash of \$240 for the year (including the negative cash balance). The fund's net position increased \$1,362. Operations in this fund were comparable to the prior year.

**CITY OF SCANDIA, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2015**

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

At the end of 2015, the City had \$10,492,583 invested in a broad range of capital assets, including land, buildings, equipment and vehicles, infrastructure, improvements, and sewer systems. This amount represents a net increase of approximately \$551,001 (or 5.54 percent) from last year.

**Table 4  
Net Capital Assets at Year-End**

	Governmental		Business-Type		Totals	
	Activities		Activities			
	2015	2014	2015	2014	2015	2014
Land	\$ 487,735	\$ 487,735	\$ -	\$ -	\$ 487,735	\$ 487,735
Construction in Progress	42,484	-	-	-	42,484	-
Buildings	1,364,529	1,414,369	-	-	1,364,529	1,414,369
Equipment and Vehicles	1,239,092	1,130,261	121,130	21,039	1,360,222	1,151,300
Infrastructure	6,259,565	5,869,724	-	-	6,259,565	5,869,724
Other Improvements	62,788	68,317	-	-	62,788	68,317
201 Sewer System	-	-	720,000	750,000	720,000	750,000
Uptown Sewer	-	-	195,260	200,137	195,260	200,137
<b>Totals</b>	<b>\$ 9,456,193</b>	<b>\$ 8,970,406</b>	<b>\$ 1,036,390</b>	<b>\$ 971,176</b>	<b>\$ 10,492,583</b>	<b>\$ 9,941,582</b>

Significant capital asset acquisitions during 2015 were:

- Reconstruction of Quinnell Avenue - \$586,000
- Replacement of Fire Department tanker truck - \$215,000
- Construction of Lilleskogen Park parking lot - \$46,000
- Replacement of control equipment for 201 sewer system - \$95,000

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

**Debt**

In 2015 the City paid off \$500,000 of the \$1,030,000 in debt that was outstanding at December 31, 2014. The City issued debt totaling \$215,000 to fund the purchase of a tanker truck for the Fire Department. The year-end the debt outstanding totaled \$745,000. 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 2016 budget, such as tax rates and fees that will be charged for the business-type activities. Citizens were asked for feedback on capital project priorities based on projects identified by the citizen Capital Improvement Committee with street maintenance receiving the highest priority ranking. The property tax levy for 2016 increased \$40,000 over 2015 (1.82%) with increases in funding for the Local Road Improvement Fund (\$231,000) being offset by decreases in funding for debt service and operations. The budget for General Fund revenues and expenditures increased by \$145,000 and \$111,000 respectively. The largest increase in budgeted General Fund expenditures was for increasing the transfer to the Local Road Improvement Fund (\$137,000). For the third consecutive year, the Council elected to make no changes to the sewer rates.

**CITY OF SCANDIA, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2015**

**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 209<sup>th</sup> 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, 2015**

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 3,153,085	\$ 51,185	\$ 3,204,270
Property Taxes Receivable	63,130	-	63,130
Assessments Receivable	76,301	6,938	83,239
Accounts Receivable	22,546	13,237	35,783
Prepays	1,300	-	1,300
Inventory	8,115	-	8,115
Internal Balances	31,812	(31,812)	-
Noncurrent Assets:			
Net Pension Asset	94,106	-	94,106
Capital Assets not Being Depreciated	530,219	-	530,219
Capital Assets Being Depreciated (Net)	8,925,974	1,036,390	9,962,364
<b>TOTAL ASSETS</b>	12,906,588	1,075,938	13,982,526
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Pensions	39,424	3,210	42,634
<b>LIABILITIES</b>			
Accounts Payable	139,996	1,632	141,628
Accrued Payroll, Taxes, and Benefits	20,423	267	20,690
Accrued Interest	3,988	-	3,988
Unearned Revenue	3,959	-	3,959
Noncurrent Liabilities:			
Net Pension Liability	285,824	19,945	305,769
Compensated Absences	21,300	-	21,300
Debt Due Within One Year	168,000	-	168,000
Debt Due After One Year	577,000	-	577,000
<b>TOTAL LIABILITIES</b>	1,220,490	21,844	1,242,334
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Pensions	39,430	1,005	40,435
<b>NET POSITION</b>			
Net Investment in Capital Assets	8,711,193	1,036,390	9,747,583
Restricted	195,126	-	195,126
Unrestricted	2,779,773	19,909	2,799,682
<b>TOTAL NET POSITION</b>	\$ 11,686,092	\$ 1,056,299	\$ 12,742,391

**CITY OF SCANDIA, MINNESOTA  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2015**

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	
<b>Governmental Activities:</b>							
General Government	\$ 499,996	\$ 168,243	\$ -	\$ -	\$ (331,753)	\$ -	\$ (331,753)
Public Safety	340,909	32,248	45,838	-	(262,823)	-	(262,823)
Public Works	1,050,232	2,324	-	3,038	(1,044,870)	-	(1,044,870)
Parks and Recreation	94,646	24,317	6,752	-	(63,577)	-	(63,577)
Economic Development	365	-	-	-	(365)	-	(365)
Debt Service	26,972	-	-	-	(26,972)	-	(26,972)
<b>Total Governmental Activities</b>	<b>2,013,120</b>	<b>227,132</b>	<b>52,590</b>	<b>3,038</b>	<b>(1,730,360)</b>	<b>-</b>	<b>(1,730,360)</b>
<b>Business-Type Activities:</b>							
201 Sewer	101,179	68,030	-	6,721	-	(26,428)	(26,428)
Uptown Sewer	16,821	18,183	-	-	-	1,362	1,362
<b>Total Business-Type Activities</b>	<b>118,000</b>	<b>86,213</b>	<b>-</b>	<b>6,721</b>	<b>-</b>	<b>(25,066)</b>	<b>(25,066)</b>
<b>TOTALS</b>	<b>\$ 2,131,120</b>	<b>\$ 313,345</b>	<b>\$ 52,590</b>	<b>\$ 9,759</b>	<b>(1,730,360)</b>	<b>(25,066)</b>	<b>(1,755,426)</b>
<b>General Revenues:</b>							
Taxes					2,264,524	-	2,264,524
Intergovernmental					87,236	-	87,236
Investment Income					9,875	343	10,218
Miscellaneous					28,001	-	28,001
Loss on Disposal of Assets					(4,349)	-	(4,349)
<b>Total General Revenues</b>					<b>2,385,287</b>	<b>343</b>	<b>2,385,630</b>
<b>CHANGE IN NET POSITION</b>					<b>654,927</b>	<b>(24,723)</b>	<b>630,204</b>
<b>NET POSITION-BEGINNING OF YEAR</b>					<b>11,230,812</b>	<b>1,098,215</b>	<b>12,329,027</b>
<b>CHANGE IN ACCOUNTING PRINCIPLE</b>					<b>(199,647)</b>	<b>(17,193)</b>	<b>(216,840)</b>
<b>NET POSITION-END OF YEAR</b>					<b>\$ 11,686,092</b>	<b>\$ 1,056,299</b>	<b>\$ 12,742,391</b>

**CITY OF SCANDIA, MINNESOTA  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2015**

	General Fund	Debt Service Fund	Equipment Replacement Fund	Capital Improvement Fund	Park Capital Improvement Fund	Local Road Improvement Fund	Nonmajor Economic Development Authority Fund	Total Governmental Funds
<b>ASSETS</b>								
Cash and Cash Equivalents	\$ 1,834,103	\$ 112,793	\$ 470,608	\$ 289,389	\$ 15,188	\$ 425,608	\$ 5,396	\$ 3,153,085
Property Taxes Receivable	62,663	467	-	-	-	-	-	63,130
Assessments Receivable	-	76,301	-	-	-	-	-	76,301
Accounts Receivable	22,546	-	-	-	-	-	-	22,546
Prepays	1,300	-	-	-	-	-	-	1,300
Inventory	8,115	-	-	-	-	-	-	8,115
Due from Other Fund	144	-	-	-	-	-	-	144
Advance to Other Fund	-	-	-	66,668	-	-	-	66,668
<b>TOTAL ASSETS</b>	<b>\$ 1,928,871</b>	<b>\$ 189,561</b>	<b>\$ 470,608</b>	<b>\$ 356,057</b>	<b>\$ 15,188</b>	<b>\$ 425,608</b>	<b>\$ 5,396</b>	<b>\$ 3,391,289</b>
<b>LIABILITIES</b>								
Accounts Payable	\$ 117,344	\$ -	\$ -	\$ -	\$ -	\$ 22,652	\$ -	139,996
Accrued Payroll, Taxes, and Benefits	20,423	-	-	-	-	-	-	20,423
Unearned Revenue	3,959	-	-	-	-	-	-	3,959
Advance from Other Fund	-	-	-	-	35,000	-	-	35,000
Total Liabilities	141,726	-	-	-	35,000	22,652	-	199,378
<b>DEFERRED INFLOWS OF RESOURCES</b>								
Unavailable Revenue:								
Property Taxes	40,558	-	-	-	-	-	-	40,558
Special Assessments	-	76,301	-	-	-	-	-	76,301
Total Deferred Inflows of Resources	40,558	76,301	-	-	-	-	-	116,859
<b>FUND BALANCES</b>								
Nonspendable	9,415	-	-	66,668	-	-	-	76,083
Restricted	38	113,260	9,515	-	-	-	-	122,813
Committed	-	-	-	289,389	-	171,383	5,396	466,168
Assigned	-	-	461,093	-	-	231,573	-	692,666
Unassigned	1,737,134	-	-	-	(19,812)	-	-	1,717,322
Total Fund Balances	1,746,587	113,260	470,608	356,057	(19,812)	402,956	5,396	3,075,052
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>	<b>\$ 1,928,871</b>	<b>\$ 189,561</b>	<b>\$ 470,608</b>	<b>\$ 356,057</b>	<b>\$ 15,188</b>	<b>\$ 425,608</b>	<b>\$ 5,396</b>	<b>\$ 3,391,289</b>

**CITY OF SCANDIA, MINNESOTA  
RECONCILIATION OF THE BALANCE SHEET-GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET POSITION  
DECEMBER 31, 2015**

Total fund balance for governmental funds	\$	3,075,052
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets (net of accumulated depreciation of \$5,659,677) used in governmental activities are not financial resources and, therefore are not reported in the funds.		9,456,193
Other long-term assets are not available to pay for current-period expenditures and therefore are reported as unavailable revenue in the funds.		116,859
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		(3,988)
Compensated Absences		(21,300)
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		(168,000)
Debt Due After One Year		(577,000)
The net pension asset/liability and related deferred outflows/inflows of resources represent the allocation of the pension obligations of the statewide plans to the City. Such balances are not reported in the funds:		
Net Pension Asset - PERA Volunteer Firefighter Retirement Plan		94,106
Net Pension Liability - PERA General Employees Retirement Fund		(285,824)
Deferred Outflows - Pensions		39,424
Deferred Inflows - Pensions		<u>(39,430)</u>
<b>TOTAL NET POSITION OF GOVERNMENTAL ACTIVITIES</b>	<b>\$</b>	<b><u>11,686,092</u></b>

**CITY OF SCANDIA, MINNESOTA**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**

	General Fund	Debt Service Fund	Equipment Replacement Fund	Capital Improvement Fund	Park Capital Improvement Fund	Local Road Improvement Fund	Nonmajor Economic Development Authority Fund	Total Governmental Funds
<b>REVENUES</b>								
Taxes	\$ 1,622,644	\$ 272,691	\$ -	\$ 30,000	\$ -	\$ 345,000	\$ 5,000	\$ 2,275,335
Special Assessments	-	20,160	-	-	-	-	-	20,160
Licenses, Permits, and Fees	138,740	-	-	-	-	-	-	138,740
Intergovernmental	56,208	-	-	-	3,186	31,028	-	90,422
Charges for Services	67,281	-	-	-	6,000	-	-	73,281
Fines	12,711	-	-	-	-	-	-	12,711
Investment Income	5,847	734	1,523	967	28	775	1	9,875
Miscellaneous	40,755	-	-	-	5,831	-	-	46,586
<b>TOTAL REVENUES</b>	<b>1,944,186</b>	<b>293,585</b>	<b>1,523</b>	<b>30,967</b>	<b>15,045</b>	<b>376,803</b>	<b>5,001</b>	<b>2,667,110</b>
<b>EXPENDITURES</b>								
Current:								
General Government	477,480	-	-	-	-	-	-	477,480
Public Safety	288,896	-	-	-	-	-	-	288,896
Public Works	693,175	-	2,000	8,987	-	-	-	704,162
Parks and Recreation	82,999	-	-	-	1,567	-	-	84,566
Economic Development	-	-	-	-	-	-	365	365
Debt Service:								
Principal	-	500,000	-	-	-	-	-	500,000
Interest and Other Charges	-	31,094	-	-	-	-	-	31,094
Capital Outlay	14,417	-	214,938	1,388	45,706	627,157	-	903,606
<b>TOTAL EXPENDITURES</b>	<b>1,556,967</b>	<b>531,094</b>	<b>216,938</b>	<b>10,375</b>	<b>47,273</b>	<b>627,157</b>	<b>365</b>	<b>2,990,169</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>387,219</b>	<b>(237,509)</b>	<b>(215,415)</b>	<b>20,592</b>	<b>(32,228)</b>	<b>(250,354)</b>	<b>4,636</b>	<b>(323,059)</b>
<b>OTHER FINANCING SOURCES (USES)</b>								
Bond Proceeds	-	-	215,000	-	-	-	-	215,000
Operating Transfers In	-	-	20,000	-	11,349	325,173	-	356,522
Operating Transfers Out	(356,522)	-	-	-	-	-	-	(356,522)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(356,522)</b>	<b>-</b>	<b>235,000</b>	<b>-</b>	<b>11,349</b>	<b>325,173</b>	<b>-</b>	<b>215,000</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>30,697</b>	<b>(237,509)</b>	<b>19,585</b>	<b>20,592</b>	<b>(20,879)</b>	<b>74,819</b>	<b>4,636</b>	<b>(108,059)</b>
<b>FUND BALANCES - BEGINNING</b>	<b>1,715,890</b>	<b>350,769</b>	<b>451,023</b>	<b>335,465</b>	<b>1,067</b>	<b>328,137</b>	<b>760</b>	<b>3,183,111</b>
<b>FUND BALANCES - ENDING</b>	<b>\$ 1,746,587</b>	<b>\$ 113,260</b>	<b>\$ 470,608</b>	<b>\$ 356,057</b>	<b>\$ (19,812)</b>	<b>\$ 402,956</b>	<b>\$ 5,396</b>	<b>\$ 3,075,052</b>

**CITY OF SCANDIA, MINNESOTA  
RECONCILIATION OF CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2015**

Net change in fund balances - total governmental funds \$ (108,059)

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	\$ 903,606	
Loss on the Sale of Assets	(4,349)	
Depreciation Expense	<u>(413,470)</u>	485,787

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	(27,933)
---------------------------------	----------

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 Proceeds	(215,000)
Bond Payments	500,000

Net change in accrued interest on bonds is not reported as an expenditure in the funds:

Change in Accrued Interest on Bonds	4,122
-------------------------------------	-------

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

Change in Compensated Absences	8,087
--------------------------------	-------

Net pension asset/liability balances do not represent the impending use or acquisition of current resources. Therefore, the change in the asset/liability and the related deferrals is not reported in the governmental funds:

Change in Net Pension Asset/Liability	<u>7,923</u>
---------------------------------------	--------------

<b>CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES</b>	<b><u>\$ 654,927</u></b>
--	--------------------------

**CITY OF SCANDIA, MINNESOTA  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
DECEMBER 31, 2015**

	201 Sewer Fund	Uptown Sewer Fund	Totals
<b>ASSETS</b>			
Current Assets			
Cash and Cash Equivalents	\$ 51,185	\$ -	\$ 51,185
Accounts Receivable	8,693	4,544	13,237
Assessments Receivable	6,938	-	6,938
Total Current Assets	66,816	4,544	71,360
Noncurrent Assets			
Capital Assets Being Depreciated (Net)	841,130	195,260	1,036,390
<b>TOTAL ASSETS</b>	907,946	199,804	1,107,750
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Pensions	2,523	687	3,210
<b>LIABILITIES</b>			
Current Liabilities			
Accounts Payable	1,429	203	1,632
Accrued Salaries	178	89	267
Due to Other Fund	-	144	144
Total Current Liabilities	1,607	436	2,043
Noncurrent Liabilities			
Net Pension Liability	15,361	4,584	19,945
Advance from Other Fund	-	31,668	31,668
Total Noncurrent Liabilities	15,361	36,252	51,613
<b>TOTAL LIABILITIES</b>	16,968	36,688	53,656
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Pensions	774	231	1,005
<b>NET POSITION</b>			
Net Investment in Capital Assets	841,130	195,260	1,036,390
Unrestricted	51,597	(31,688)	19,909
<b>TOTAL NET POSITION</b>	\$ 892,727	\$ 163,572	\$ 1,056,299

**CITY OF SCANDIA, MINNESOTA**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>201 Sewer Fund</u>	<u>Uptown Sewer Fund</u>	<u>Totals</u>
<b>OPERATING REVENUES</b>			
Charges for Services	\$ 68,030	\$ 18,183	\$ 86,213
<b>OPERATING EXPENSES</b>			
Wages and Benefits	26,760	7,573	34,333
Materials and Supplies	3,181	271	3,452
Professional Services	1,143	-	1,143
Repairs and Maintenance	29,314	964	30,278
Other Services and Charges	8,222	3,136	11,358
Depreciation	<u>32,559</u>	<u>4,877</u>	<u>37,436</u>
<b>TOTAL OPERATING EXPENSES</b>	<u>101,179</u>	<u>16,821</u>	<u>118,000</u>
<b>NET OPERATING INCOME (LOSS)</b>	(33,149)	1,362	(31,787)
<b>NONOPERATING INCOME</b>			
Special Assessments	6,721	-	6,721
Investment Income	<u>343</u>	<u>-</u>	<u>343</u>
<b>TOTAL NONOPERATING INCOME</b>	<u>7,064</u>	<u>-</u>	<u>7,064</u>
<b>CHANGE IN NET POSITION</b>	(26,085)	1,362	(24,723)
<b>NET POSITION-BEGINNING OF YEAR</b>	932,026	166,189	1,098,215
<b>CHANGE IN ACCOUNTING PRINCIPLE</b>	<u>(13,214)</u>	<u>(3,979)</u>	<u>(17,193)</u>
<b>NET POSITION-END OF YEAR</b>	<u>\$ 892,727</u>	<u>\$ 163,572</u>	<u>\$ 1,056,299</u>

**CITY OF SCANDIA, MINNESOTA  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>201 Sewer Fund</u>	<u>Uptown Sewer Fund</u>	<u>Totals</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash Received from Customers	\$ 65,499	\$ 17,958	\$ 83,457
Cash Paid to Suppliers	(44,402)	(5,923)	(50,325)
Cash Paid to Employees	(26,184)	(7,335)	(33,519)
	<u>          </u>	<u>          </u>	<u>          </u>
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	(5,087)	4,700	(387)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Special Assessments	4,702	-	4,702
Net Advances to/from Other Funds	-	(2,640)	(2,640)
Net Operating Subsidies and Transfers to/from Other Funds	-	(2,156)	(2,156)
	<u>          </u>	<u>          </u>	<u>          </u>
<b>NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES</b>	4,702	(4,796)	(94)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Purchases of Capital Assets	(102,650)	-	(102,650)
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Investment Income	343	-	343
	<u>          </u>	<u>          </u>	<u>          </u>
Net Decrease in Cash and Cash Equivalents	(102,692)	(96)	(102,788)
Cash and Cash Equivalents-Beginning of Year	153,877	96	153,973
	<u>          </u>	<u>          </u>	<u>          </u>
Cash and Cash Equivalents-End of Year	<u>\$ 51,185</u>	<u>\$ -</u>	<u>\$ 51,185</u>
<b>RECONCILIATION OF NET OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>			
Net Operating Income (Loss)	\$ (33,149)	\$ 1,362	\$ (31,787)
Adjustments to Reconcile Net Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities			
Depreciation Expense	32,559	4,877	37,436
Change in Assets and Liabilities:			
Accounts Receivable	(2,531)	(224)	(2,755)
Accounts Payable	(2,542)	(1,553)	(4,095)
Accrued Wages	178	89	267
Deferred Outflows of Resources - Pension	(1,827)	(515)	(2,342)
Net Pension Liability	1,451	433	1,884
Deferred Inflows of Resources - Pension	774	231	1,005
	<u>          </u>	<u>          </u>	<u>          </u>
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<u>\$ (5,087)</u>	<u>\$ 4,700</u>	<u>\$ (387)</u>

**CITY OF SCANDIA, MINNESOTA  
STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUND  
DECEMBER 31, 2015**

	<u>Agency Fund</u>
<b>ASSETS</b>	
Cash and Cash Equivalents	\$ <u>52,774</u>
<b>LIABILITIES</b>	
Accounts Payable	\$ <u>52,774</u>

**CITY OF SCANDIA, MINNESOTA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015**

**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 a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, deferred outflows, 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, 2015**

**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 and deferred outflows, 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 and deferred outflows, 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 City reports the following major governmental funds:

The *General Fund* is the primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another 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 and special assessments are used for the payment of principal and interest on the City's judgment.

The *Equipment Replacement Fund* is a capital project fund used to account for financial resources to be used for the various equipment purchases made by the City.

The *Capital Improvement Fund* accounts for financial resources to be used for the acquisition or construction of capital projects (other than those financed by proprietary funds).

The *Park Capital Improvement Fund* is a capital project fund used to account for financial resources to be used for acquisitions or construction projects related to parks within the City.

The *Local Road Improvement Fund* is a capital project fund used to account for financial resources to be used for the construction or improvement of roads within the City.

The City reports the following major proprietary funds:

The *201 Sewer* and *Uptown Sewer Funds* account for business-like activities related to the operation of sewer systems provided to the general public. These activities are financed primarily by user charges, and the measurement of financial activity focuses on the net income measurement similar to the private sector.

Additionally, the government reports the following non-major fund types:

The *Special Revenue Fund* accounts for funds received by the City with a specific purpose.

The *Agency Fund* accounts for assets held by the City as an agent for other parties outside the organization. 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, 2015**

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

**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, financial position, and cash flows. All assets, deferred outflows, liabilities, and deferred inflows (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.

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, deferred outflows, liabilities, and deferred inflows, and disclosure of contingencies related to these balances 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.

**CITY OF SCANDIA, MINNESOTA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015**

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

**1.E. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/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 Transactions and Balances**

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 fund.” Short-term interfund loans are reported as “due to and 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.

**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 and assessments 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 and assessments 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.

**CITY OF SCANDIA, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2015**

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

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

**Capital Assets (Continued)**

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.

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.

**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 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.

**Net Pension Asset/Liability**

The net pension asset represents the City's allocation of its pro-rata share of the Statewide Volunteer Firefighter Fund net pension asset. The net pension liability represents the City's allocation of its pro-rata share of the Statewide General Employees Retirement Fund net pension liability.

**CITY OF SCANDIA, MINNESOTA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015**

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

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

**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 Outflows/Inflows of Resources**

In addition to assets, the Statements of Net Position report a separate section for deferred outflows of resources. This element represents a consumption of net position that applies to future periods, and therefore, will not be recognized as an outflow of resources (expense) until that time. The City reports deferred outflows of resources in the government-wide and proprietary fund Statements of Net Position in relation to the activity of the pension funds in which City employees participate.

In addition to liabilities, the Statements of Net Position and Balance Sheet report a separate section for deferred inflows of resources. This element represents an acquisition of net position or fund balance that applies to future periods, and therefore, will not be recognized as an inflow of resources (revenue) until that time. The City reports property taxes and special assessments as deferred inflows of resources in the governmental fund financial statements, in accordance with the modified accrual basis of accounting. In addition, the City reports deferred inflows of resources in the government-wide and proprietary fund Statements of Net Position in relation to the activity of pension funds in which City employees participate. Accordingly, such amounts are deferred and recognized as inflows of resources in the period that they become available.

See Note 4 for additional information pertaining to the deferred outflows and deferred inflows recorded to account for pension activities.

**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, 2015**

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

**1.E. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/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, 2015 consist of inventory, prepaid expenditures, and advances to other funds.

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.

**CITY OF SCANDIA, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2015**

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

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

**Property Tax (Continued)**

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.

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. RECENTLY ISSUED ACCOUNTING STANDARDS**

Effective December 31, 2015, the City adopted governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. These statements incorporated the City's share of the Public Employees Retirement Association unfunded asset/liability into the Statement of Net Position.

**CITY OF SCANDIA, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2015**

**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.

**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.

**2.C. DEFICIT FUND BALANCE**

At December 31, 2015, the City has a deficit fund balance of \$19,812 in its Park Capital Improvement Fund. Such deficit is expected to be covered through future revenues or transfers from other funds.

**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 outflows/inflows of resources, 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.

**CITY OF SCANDIA, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2015**

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

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

**Deposits (Continued)**

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, 2015, 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.

**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, 2015, the City does not hold any investments.

**CITY OF SCANDIA, MINNESOTA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015**

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

**3.B. CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2015 is as follows:

	Balance at 01/01/15	Additions	Disposals	Transfers	Balance at 12/31/15
Governmental Activities:					
Capital Assets not Being Depreciated					
Land	\$ 487,735	\$ -	\$ -	\$ -	\$ 487,735
Construction In Progress	-	42,484	-	-	42,484
Total Capital Assets not Being Depreciated	487,735	42,484	-	-	530,219
Capital Assets Being Depreciated					
Buildings	2,272,131	-	-	-	2,272,131
Equipment	855,419	14,417	(5,900)	-	863,936
Vehicles	1,239,813	214,938	-	-	1,454,751
Infrastructure	9,283,919	631,767	(83,500)	-	9,832,186
Other Improvements	162,647	-	-	-	162,647
Total Capital Assets Being Depreciated	13,813,929	861,122	(89,400)	-	14,585,651
Less: Accumulated Depreciation					
Buildings	(857,762)	(49,840)	-	-	(907,602)
Equipment	(392,959)	(65,332)	5,900	-	(452,391)
Vehicles	(572,012)	(55,193)	-	-	(627,205)
Infrastructure	(3,414,195)	(237,576)	79,151	-	(3,572,620)
Other Improvements	(94,330)	(5,529)	-	-	(99,859)
Total Accumulated Depreciation	(5,331,258)	(413,470)	85,051	-	(5,659,677)
Total Capital Assets Being Depreciated, Net	8,482,671	447,652	(4,349)	-	8,925,974
Capital Assets, Net	<u>\$ 8,970,406</u>	<u>\$ 490,136</u>	<u>\$ (4,349)</u>	<u>\$ -</u>	<u>\$ 9,456,193</u>

**CITY OF SCANDIA, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2015**

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

**3.B.    CAPITAL ASSETS (Continued)**

	Balance at 01/01/15	Additions	Disposals	Balance at 12/31/15
Business-Type Activities:				
Capital Assets Being Depreciated				
Sewer Plant	\$ 1,500,000	\$ -	\$ -	\$ 1,500,000
Equipment	21,275	102,650	-	123,925
Uptown Sewer	243,827	-	-	243,827
Total Capital Assets Being Depreciated	1,765,102	102,650	-	1,867,752
Less: Accumulated Depreciation				
Sewer Plant	(750,000)	(30,000)	-	(780,000)
Equipment	(236)	(2,559)	-	(2,795)
Uptown Sewer	(43,690)	(4,877)	-	(48,567)
Total Accumulated Depreciation	(793,926)	(37,436)	-	(831,362)
Total Capital Assets Being Depreciated, Net	971,176	65,214	-	1,036,390
Business-Type Activities	\$ 971,176	\$ 65,214	\$ -	\$ 1,036,390

Depreciation is charged to governmental activities as follows:

General Government	\$ 16,202
Public Safety	49,254
Public Works	338,194
Parks and Recreation	9,820
Total Depreciation Expense	\$ 413,470

**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, 2015**

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

**3.C.   LONG-TERM DEBT (Continued)**

As of December 31, 2015, 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
2010 Equipment Certificate	7/10	\$40,000	2.20-3.55%	2/16	\$ 200,000	\$ 40,000
2011 Equipment Certificate	7/11	\$30,000	2.75-3.95%	12/16	150,000	30,000
2013 Equipment Certificate	7/13	\$50,000 - 65,000	0.80-2.50%	7/23	570,000	460,000
2015 Equipment Certificate	5/15	\$43,000	1.40-2.30%	7/20	215,000	215,000
Total Governmental Activities Bonds Payable						745,000
Bonds Due Within One Year						168,000
Bonds Due After One Year						\$ 577,000

**Changes in Long-Term Debt**

The following is a summary of changes in long-term debt for the year ended December 31, 2015:

	Balance 1/1/15	Additions	Deductions	Balance 12/31/15	Amounts Due Within One Year
Governmental Activities:					
General Obligation Notes	\$ 1,030,000	\$ 215,000	\$ (500,000)	\$ 745,000	\$ 168,000
Compensated Absences	29,387	17,716	(25,803)	21,300	21,300
Total Long-Term Debt	\$ 1,059,387	\$ 232,716	\$ (525,803)	\$ 766,300	\$ 189,300

Interest expense totals \$26,477 in the Statement of Activities (included in Debt Service line). Interest expense totals \$30,599 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, 2015**

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

**3.C.   LONG-TERM DEBT (Continued)**

**Annual Debt Service Requirements**

At December 31, 2015, 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
2016	\$ 168,000	\$ 16,003	\$ 184,003
2017	98,000	12,627	110,627
2018	98,000	10,874	108,874
2019	98,000	8,859	106,859
2020	103,000	6,555	109,555
Thereafter	180,000	8,220	188,220
Totals	<u>\$ 745,000</u>	<u>\$ 63,138</u>	<u>\$ 808,138</u>

Governmental activity debt is typically funded through the Debt Service Fund. Compensated absences are typically funded through the General Fund.

**3.D.   INTERFUND TRANSACTIONS AND BALANCES**

Operating transfers consist of the following for the year ended December 31, 2015:

Major Funds	Transfers Out	Transfers In			Total
		Major Funds			
		Equipment Replacement	Park Capital Improvement Fund	Local Road Improvement Fund	
General	<u>\$ 356,522</u>	<u>\$ 20,000</u>	<u>\$ 11,349</u>	<u>\$ 325,173</u>	<u>\$ 356,522</u>

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.

**CITY OF SCANDIA, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2015**

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

**3.D.   INTERFUND TRANSACTIONS AND BALANCES (Continued)**

The interfund balances are as follows:

<u>Long-Term Advances</u>			
<u>Due To Fund</u>	<u>Due From Fund</u>	<u>Amount</u>	<u>Reason</u>
Capital Improvement	Uptown Sewer	\$    31,668	Sewer improvements
Capital Improvement	Park Capital Improvement	<u>          35,000</u>	Finance parking lot
Governmental funds advances to/from		\$    66,668	
<u>Short-Term Balances</u>			
<u>Due To Fund</u>	<u>Due From Fund</u>		
General Fund	Uptown Sewer	<u>          144</u>	Eliminate negative cash
Total Interfund Balances		<u>\$    66,812</u>	
Governmental Fund Elimination		<u>(35,000)</u>	
Government-wide Internal Balances		<u>\$    31,812</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. The Park Capital Improvement monies owed to the Capital Improvement Fund will be repaid as park dedication fees and donations are received.

**3.E.   FUND EQUITY**

At December 31, 2015, governmental fund equity consists of the following:

General Fund		
Nonspendable - Prepaids and Inventory		\$       9,415
Restricted for Erickson Ballfield		38
Unassigned		<u>1,737,134</u>
Total General Fund Balance		<u>\$   1,746,587</u>
Debt Service Fund		
Restricted for Debt Service		<u>\$    113,260</u>
Equipment Replacement Fund		
Restricted for Equipment Replacement		\$       9,515
Assigned for Equipment Replacement		<u>461,093</u>
Total Equipment Replacement Fund Balance		<u>\$    470,608</u>

**CITY OF SCANDIA, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2015**

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

**3.E.    FUND EQUITY (Continued)**

Capital Improvement Fund	
Nonspendable - Advance to Other Fund	\$       66,668
Committed for Capital Improvements	<u>289,389</u>
Total Capital Improvement Fund	<u>\$     356,057</u>
Park Capital Improvement Fund	
Unassigned	<u>\$       (19,812)</u>
Local Road Improvement Fund	
Committed for Local Road Improvements	\$       171,383
Assigned for Local Road Improvement	<u>231,573</u>
Total Local Road Improvement Fund	<u>\$     402,956</u>
Other Governmental Funds	
Committed for Economic Development	<u>\$           5,396</u>

**NOTE 4    OTHER NOTES**

**4.A.    EMPLOYEE DEFINED BENEFIT PENSION PLANS - STATEWIDE**

**Plan Description**

The City participates in the following cost-sharing multiple-employer defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA’s defined benefit pension plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356. PERA’s defined benefit pension plans are tax qualified plans under Section 401 (a) of the Internal Revenue Code.

General Employees Retirement Fund (GERF)

All full-time and certain part-time employees of the City of Scandia are covered by the General Employees Retirement Fund (GERF). 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. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

**Benefits Provided**

PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state legislature.

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90% funded for two consecutive years are given 2.50% increases. Members in plans that have not exceeded 90% funded, or have fallen below 80%, are given 1% increases.

**CITY OF SCANDIA, MINNESOTA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015**

**NOTE 4 OTHER NOTES (Continued)**

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

**Benefits Provided (Continued)**

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

GERF Benefits

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of 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 2.20% of average salary for each of the first ten years of service and 2.70% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.20% of average salary for each of the first ten years and 1.70% for each remaining year. Under Method 2, the annuity accrual rate is 2.70% of average salary for Basic Plan members and 1.70% for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

**Contributions**

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

GERF Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.10% and 6.50%, respectively, of their annual covered salary in calendar year 2015. The City was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2015. The City's contributions to the GERF for the year ended December 31, 2015 were \$25,468. The City's contributions were equal to the required contributions as set by state statute.

**Pension Costs**

GERF Pension Costs

At December 31, 2015, the City reported a liability of \$305,769 for its proportionate share of the GERF's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the City's proportion share was 0.0059%, which was the same proportion measured as of June 30, 2014.

For the year ended December 31, 2015, the City recognized pension expense of \$40,758 for its proportionate share of the GERF's pension expense.

**CITY OF SCANDIA, MINNESOTA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015**

**NOTE 4 OTHER NOTES (Continued)**

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

**Pension Costs (Continued)**

At December 31, 2015, the City reported its proportionate share of the GERF's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 15,416
Difference between projected and actual investment earnings	28,946	-
Contributions paid to PERA subsequent to the measurement date	13,688	-
Total City Deferred Outflows/Inflows	\$ 42,634	\$ 15,416

A total of \$13,688 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	Pension Expense
2016	\$ 2,098
2017	\$ 2,098
2018	\$ 2,098
2019	\$ 7,236

**Actuarial Assumptions**

The total pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions:

Assumptions	Rates
Inflation	2.75% per year
Active Member Payroll Growth	3.50% per year
Investment Rate of Return	7.90%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2000 tables for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be: 1.00% effective every January 1<sup>st</sup> until 2034, then 2.50% for GERF.

**CITY OF SCANDIA, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2015**

**NOTE 4 OTHER NOTES (Continued)**

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

**Actuarial Assumptions (Continued)**

Actuarial assumptions used in the June 30, 2015 valuation were based on the results of actuarial experience studies. The experience study in the GERP was for the period July 1, 2004 through June 30, 2008, with an update of economic assumptions in 2014.

There were no changes in actuarial assumptions in 2015.

The long-term expected rate of return on pension plan investments is 7.90%. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Stocks	45%	5.50%
International Stocks	15%	6.00%
Bonds	18%	1.45%
Alternative Assets	20%	6.40%
Cash	2%	0.50%

**Discount Rate**

The discount rate used to measure the total pension liability was 7.90%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, each of the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**Pension Liability Sensitivity**

The following presents the City's proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate 1 percentage point lower or 1 percentage point higher than the current discount rate:

	1% Decrease in Discount Rate (6.9%)	Discount Rate (7.9%)	1% Increase in Discount Rate (8.9%)
Net Pension Liability	\$ 480,777	\$ 305,769	\$ 161,239

**Pension Plan Fiduciary Net Position**

Detailed information about each pension plan's fiduciary net position is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the Internet at [www.mnpera.org](http://www.mnpera.org).

**CITY OF SCANDIA, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2015**

**NOTE 4 OTHER NOTES (Continued)**

**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.

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 2015 amount to \$927.

**4.C. STATEWIDE VOLUNTEER FIREFIGHTER RETIREMENT PLAN**

**Plan Description**

The Scandia Fire/Rescue participates in the Statewide Volunteer Firefighter Retirement Plan (SVF), an agent multiple-employer lump-sum defined benefit pension plan administered by the Public Employees Retirement Association of Minnesota (PERA). The SVF plan covers volunteer firefighters of municipal fire departments or independent nonprofit firefighting corporations that have elected to join the plan. As of December 31, 2014, the plan covered 24 active firefighters and 1 vested terminated fire fighters whose pension benefits are deferred. The plan is established and administered in accordance with Minnesota Statutes, Chapter 353 G.

**Benefits Provided**

The SVF provides lump-sum retirement, death, and supplemental benefits to covered firefighters and survivors. Benefits are paid based on the number of years of service multiplied by a benefit level per year of service approved by the City of Scandia. The benefit is selected from 71 possible levels in \$100 increments ranging from \$500 to \$7,500 per year of service. Members are eligible for a lump-sum retirement benefit at 50 years of age with five years of service. Plan provisions include a pro-rated vesting schedule that increases from 5 years at 40% through 20 years at 100%.

**Contributions**

The SVF is funded by fire state aid, investment earnings and, if necessary, employer contributions as specified in Minnesota Statutes. The State of Minnesota contributed \$33,219 in fire state aid to the plan on behalf of the Scandia Fire/Rescue for the year ended December 31, 2014, which was recorded as revenue. Required employer contributions are calculated annually based on statutory provisions. The City of Scandia's statutorily-required contributions to the SVF plan for the year ended December 31, 2015, was \$0. The City of Scandia contributions were equal to the required contributions as set by state statute.

**Pension Costs**

At December 31, 2015, the City of Scandia reported a net pension asset of \$94,106 for the SVF plan. The net pension asset was measured as of December 31, 2014. The total pension liability used to calculate the net pension asset in accordance with GASB 68 was determined by PERA applying an actuarial formula to specific census data certified by the fire department as of December 31, 2014. The following table presents the changes in net pension asset during the year.

**CITY OF SCANDIA, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2015**

**NOTE 4 OTHER NOTES (Continued)**

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

**Pension Costs (Continued)**

	Total Pension <u>Liability</u>	Plan Fiduciary <u>Net Position</u>	Net Pension <u>Liability (Asset)</u>
Beginning Balance 12/31/13	\$ 629,967	\$ 658,422	\$ (28,455)
Service Cost	22,874	-	22,874
Interest on Pension Liability	38,350	-	38,350
Actuarial Experience (Gains)/Losses	(27,553)	-	(27,553)
Projected Investment Earnings	-	39,505	(39,505)
Contributions (Employer)	-	18,259	(18,259)
Contributions (State)	-	33,219	(33,219)
Asset (Gain)/Loss	-	3,721	(3,721)
Benefit Payouts	(27,344)	(27,344)	-
PERA Administrative Fee	-	(750)	750
Adjustment to Initial Asset Transfer	-	5,368	(5,368)
Net Changes	<u>6,327</u>	<u>71,978</u>	<u>(65,651)</u>
Balance End of Year 12/31/14	<u>\$ 636,294</u>	<u>\$ 730,400</u>	<u>\$ (94,106)</u>

For the year ended December 31, 2015, the City of Scandia recognized pension expense of \$10,846.

At December 31, 2015, the City of Scandia reported deferred inflows of resources related to the pension from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ -	\$ 22,042
Difference between projected and actual investment earnings	-	<u>2,977</u>
Total City Deferred Outflows/Inflows	<u>\$ -</u>	<u>\$ 25,019</u>

The City did not report any deferred outflows of resources related to pensions. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ended December 31:</u>	<u>Pension Expense</u>
2016	\$ (6,255)
2017	\$ (6,255)
2018	\$ (6,255)
2019	\$ (6,254)

**CITY OF SCANDIA, MINNESOTA  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 DECEMBER 31, 2015**

**NOTE 4 OTHER NOTES (Continued)**

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

**Actuarial Assumptions**

The total pension liability at December 31, 2014, was determined using the entry age normal actuarial cost method and the following actuarial assumptions:

- Retirement eligibility at the later of age 50 or 20 years of service
- Investment rate of return of 6.00%
- Inflation rate of 3.00%

There were no changes in actuarial assumptions in 2014.

**Discount Rate**

The discount rate used to measure the total pension liability was 6.00%. The projection of cash flows used to determine the discount rate assumed that contributions to the SVF plan will be made as specified in statute. Based on that assumption and considering the funding ratio of the plan, the fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**Pension Liability Sensitivity**

The following presents the City's net pension asset for the SVF plan, calculated using the discount rate disclosed in the preceding paragraph, as well as what the City's net pension asset would be if it were calculated using a discount rate 1% lower or 1% higher than the current discount rate:

	<u>1% Decrease in Discount Rate (5.0%)</u>	<u>Discount Rate (6.0%)</u>	<u>1% Increase in Discount Rate (7.0%)</u>
Net Pension Asset	\$ (81,568)	\$ (94,106)	\$ (106,411)

**Plan Investments**

Investment Policy

The Minnesota State Board of Investment (SBI) is established by Article XI of the Minnesota Constitution to invest all state funds. Its membership as specified in the Constitution is comprised of the Governor (who is designated as chair of the Board), State Auditor, Secretary of State and State Attorney General.

All investments undertaken by the SBI are governed by the prudent person rule and other standards codified in *Minnesota Statutes*, Chapter 11A and Chapter 356A.

Within the requirements defined by state law, the SBI, with assistance of the SBI staff and the Investment Advisory Council, establishes investment policy for all funds under its control. These investments policies are tailored to the particular needs of each fund and specify investment objectives, risk tolerance, asset allocation, investment management structure and specific performance standards. Studies guide the on-going management of the funds and are updated periodically.

**CITY OF SCANDIA, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2015**

**NOTE 4 OTHER NOTES (Continued)**

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

**Plan Investments (Continued)**

Asset Allocation

To match the long-term nature of the pension obligations, the SBI maintains a strategic asset allocation for the Statewide Volunteer Firefighter Retirement Plan (VOLP) that includes allocations to domestic equity, international equity, bonds and cash equivalents. The long-term target asset allocation and long-term expected real rate of return is the following:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Stocks	35%	5.50%
International Stocks	15%	6.00%
Bonds	45%	1.45%
Cash	5%	0.50%

The 6.00% long-term expected rate of return on pension plan investments was determined using a building-block method. Best estimates for expected future real rates of return (expected returns, net of inflation) were developed for each asset class using both long-term historical returns and long-term capital market expectations. The asset class estimates and the target allocations were then combined to produce a geometric, long-term expected real rate of return for the portfolio. Inflation expectations were applied to derive the nominal rate of return for the portfolio.

Description of significant investment policy changes during the year

The SBI made no significant changes to their investment policy during Fiscal Year 2015 for the Statewide Volunteer Firefighter Retirement Plan.

**Pension Plan Fiduciary Net Position**

Detailed information about the SVF plan’s fiduciary net position as of June 30, 2015, is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the Internet at [www.mnpera.org](http://www.mnpera.org); by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088; or by calling (651) 296-7460 or 1-800-652-9026.

**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 unreported claims.

**CITY OF SCANDIA, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2015**

**NOTE 4 OTHER NOTES (Continued)**

**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 2016 contract budget, expenditures anticipated under this agreement for 2016 are estimated at \$115,887.

**4.F. CHANGE IN ACCOUNTING PRINCIPLE**

During the year ended December 31, 2015 the City determined adjustments to beginning proprietary and government-wide net position were necessary to conform to the financial statement presentation prescribed under newly adopted standards previously discussed in Note 1.G. Adjustments were made to record the City's proportionate share of the net pension asset/liability at the beginning of the year for the statewide pension plans in which the City's employees participate and to record deferred outflows for the City's contributions to the plans during the period subsequent to the measurement date used in the actuarial study for each plan, but prior to December 31, 2015.

The following table depicts the impact of the change in accounting principle on proprietary funds beginning net position.

	201 Sewer Fund	Uptown Sewer
Beginning Net Position	\$ 932,026	\$ 166,189
Net Pension Liability at 1/1/15	(13,910)	(4,151)
Deferred Outflows for Pension Contributions	<u>696</u>	<u>172</u>
Beginning Net Position - Restated	<u>\$ 918,812</u>	<u>\$ 162,210</u>

The following table depicts the impact of the change in accounting principle on government-wide beginning net position.

	Governmental Activities	Business-Type Activities
Beginning Net Position	\$ 11,230,812	\$ 1,098,215
Net Pension Asset at 1/1/15	28,455	-
Net Pension Liability at 1/1/15	(259,091)	(18,062)
Deferred Outflows for Pension Contributions	<u>30,989</u>	<u>869</u>
Beginning Net Position - Restated	<u>\$ 11,031,165</u>	<u>\$ 1,081,022</u>

**4.G. SUBSEQUENT EVENTS**

Subsequent to year end and prior to the issuance of these financial statements, the City accepted a bid of \$841,001 from a contractor for the 2016 Seal Coat and Crack Filling Project.

## **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
- Schedule of City's Proportionate Share of Net Pension Liability
- Schedule of City Contributions
- Schedule of Changes in Net Pension Liability (Asset)

**CITY OF SCANDIA, MINNESOTA  
BUDGETARY COMPARISON SCHEDULE-GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2015**

	Budget Amounts- Original and Final	Actual Amounts Budgetary Basis	Variance with Final Budget Over (Under)
<b>RESOURCES (INFLOWS):</b>			
Taxes	\$ 1,602,328	\$ 1,622,644	\$ 20,316
Licenses, Permits, & Fees	83,530	138,740	55,210
Intergovernmental	33,870	56,208	22,338
Charges for Services	59,228	67,281	8,053
Fines	12,000	12,711	711
Investment Income	4,500	5,847	1,347
Miscellaneous	22,129	40,755	18,626
<b>AMOUNTS AVAILABLE</b>	1,817,585	1,944,186	126,601
<b>CHARGES TO APPROPRIATIONS (OUTFLOWS):</b>			
General Government:			
Mayor and Council	20,121	19,321	(800)
Planning and Buildings	71,700	105,206	33,506
Elections	470	1,173	703
General Government	359,667	351,780	(7,887)
Public Safety:			
Police	111,105	115,642	4,537
Fire	256,707	173,254	(83,453)
Public Works	827,895	693,175	(134,720)
Parks and Recreation	101,725	82,999	(18,726)
Capital Outlay	19,417	14,417	(5,000)
Transfers Out	345,173	356,522	11,349
<b>TOTAL CHARGES</b>	2,113,980	1,913,489	(200,491)
<b>NET CHANGE IN FUND BALANCE</b>	\$ (296,395)	30,697	\$ 327,092
<b>FUND BALANCE - BEGINNING</b>		1,715,890	
<b>CASH FUND BALANCE - ENDING</b>		\$ 1,746,587	

**CITY OF SCANDIA**  
**SCHEDULE OF CITY'S PROPORTIONATE**  
**SHARE OF NET PENSION LIABILITY**  
**LAST TEN YEARS** (Presented Prospectively)

For the Fiscal Year Ended June 30	City's Proportion of the Net Pension Liability	City's Proportionate Share of the Net Pension Liability	City's Covered- Employee Payroll	Proportionate Share of the Net Pension Liability as a Percentage of its Covered- Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015 GERF	0.0059%	\$ 305,769	\$ 342,106	89.38%	78.20%

**SCHEDULE OF CITY CONTRIBUTIONS**  
**LAST TEN YEARS** (Presented Prospectively)

For the Year Ended December 31	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	City's Covered- Employee Payroll	Contributions as a Percentage of Covered- Employee Payroll
2015 GERF	\$ 25,468	\$ 25,468	\$ -	\$ 348,155	\$ 0
2015 SVF	\$ -	\$ -	\$ -	N/A	N/A

**CITY OF SCANDIA, MINNESOTA**  
**SCHEDULE OF CHANGES IN NET PENSION LIABILITY (ASSET)**  
**STATEWIDE VOLUNTEER FIREFIGHTER FUND**  
**LAST TEN YEARS (Presented Prospectively)**

	2014
<b>Changes in Total Pension Liability (TPL)</b>	
Balance at January 1st	\$ 629,967
Service Cost	22,874
Interest on the TPL	38,350
Actuarial Experience (Gains)/Losses	(27,553)
Benefit Payments	(27,344)
Balance at December 31st	\$ 636,294
<b>Plan Fiduciary Net Position (PFNP)</b>	
Balance at January 1st	\$ 658,422
Fire State Aid	24,368
Fire Supplemental Aid	5,896
Supplemental Benefit Reimbursement	2,955
Municipal Contributions	18,259
Adjustment to Initial Asset Transfer	5,368
Net Investment Income	43,226
Total Additions	100,072
Benefit Payments	(27,344)
Administrative Expenses	(750)
Total Reductions	(28,094)
Balance at December 31st	\$ 730,400
Net Pension Liability (Asset) - December 31st	\$ (94,106)
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	115%

### **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 Schedules – Nonmajor Debt Service Fund

**CITY OF SCANDIA, MINNESOTA  
SUPPLEMENTAL COMBINING BALANCE SHEET  
DEBT SERVICE FUND  
DECEMBER 31, 2015**

	2007 Improvement Bond	2010 Equipment Certificates	2011 Equipment Certificates	2013 Equipment Certificates	Total Debt Service
<b>ASSETS</b>					
Cash and Cash Equivalents	\$ 42,467	\$ 53,070	\$ 6,735	\$ 10,521	\$ 112,793
Property Taxes Receivable	467	-	-	-	467
Assessments Receivable	76,301	-	-	-	76,301
<b>TOTAL ASSETS</b>	<b>\$ 119,235</b>	<b>\$ 53,070</b>	<b>\$ 6,735</b>	<b>\$ 10,521</b>	<b>\$ 189,561</b>
 <b>DEFERRED INFLOWS OF RESOURCES</b>					
Unavailable Revenue: Special Assessments	\$ 76,301	\$ -	\$ -	\$ -	\$ 76,301
 <b>FUND BALANCES</b>					
Restricted	42,934	53,070	6,735	10,521	113,260
<b>TOTAL DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<b>\$ 119,235</b>	<b>\$ 53,070</b>	<b>\$ 6,735</b>	<b>\$ 10,521</b>	<b>\$ 189,561</b>

**CITY OF SCANDIA, MINNESOTA**  
**SUPPLEMENTAL COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**DEBT SERVICE FUND**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**

	2007 Improvement Bond	2010 Equipment Certificates	2011 Equipment Certificates	2013 Equipment Certificates	Total Debt Service
<b>REVENUES</b>					
Taxes	\$ 125,395	\$ 44,049	\$ 33,926	\$ 69,321	\$ 272,691
Special Assessments	20,160	-	-	-	20,160
Investment Income	512	171	20	31	734
<b>TOTAL REVENUES</b>	<u>146,067</u>	<u>44,220</u>	<u>33,946</u>	<u>69,352</u>	<u>293,585</u>
<b>EXPENDITURES</b>					
Debt Service:					
Principal	375,000	40,000	30,000	55,000	500,000
Interest and Other Charges	15,189	2,080	2,310	11,515	31,094
<b>TOTAL EXPENDITURES</b>	<u>390,189</u>	<u>42,080</u>	<u>32,310</u>	<u>66,515</u>	<u>531,094</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	(244,122)	2,140	1,636	2,837	(237,509)
<b>FUND BALANCE - BEGINNING</b>	<u>287,056</u>	<u>50,930</u>	<u>5,099</u>	<u>7,684</u>	<u>350,769</u>
<b>FUND BALANCE - ENDING</b>	<u><u>\$ 42,934</u></u>	<u><u>\$ 53,070</u></u>	<u><u>\$ 6,735</u></u>	<u><u>\$ 10,521</u></u>	<u><u>\$ 113,260</u></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**

April 5, 2016

Honorable Mayor and City Council  
City of 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, 2015, 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 April 5, 2016.

**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.

*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. *A significant deficiency* is deficiency, or 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be material weaknesses: Findings 2013-1 and 2013-3.

**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.

*Schlenner Wenner & Co.*

**SCHLENNER WENNER & CO.**

St. Cloud, Minnesota

**CITY OF SCANDIA, MINNESOTA  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED DECEMBER 31, 2015**

**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 2013-3 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**

April 5, 2016

Honorable Mayor and City Council  
City of Scandia, Minnesota

We have audited, 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 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, 2015, and the related notes to the financial statements, and have issued our report thereon dated April 5, 2016.

The *Minnesota Legal Compliance Audit Guide for Cities*, 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 Cities*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City's noncompliance with the above referenced provisions.

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

**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