

April 13, 2017

Neil Soltis, City Administrator  
City of Scandia  
14727 209<sup>th</sup> Street North  
Scandia, MN 55073

Dear Mr. Soltis:

In accordance with your request, we are attaching the accompanying PDF file, which contains an electronic final version of the financial statements of the City of Scandia as of December 31, 2016. We understand that your request for the electronic copy has been made as a matter of convenience. You understand that electronic transmissions are not entirely secure and that it is possible for confidential financial information to be intercepted by others.

These financial statements and our report(s) on them are not to be modified in any manner. This final version supersedes all prior drafts. Any preliminary draft version of the financial statements previously provided to you in an electronic format should be deleted from your computer, and all printed copies of any superseded preliminary draft versions should likewise be destroyed.

Professional standards and our firm policies require that we perform certain additional procedures whenever our reports are included, or we are named as accountants, auditors, or "experts," in a document used in a public or private offering of equity or debt securities. Accordingly, as provided for and agreed to in the terms of our arrangement letter, the City of Scandia will not include our reports, or otherwise make reference to us, in any public or private securities offering without first obtaining our consent. Any request to consent is also a matter for which separate arrangements will be necessary. After obtaining our consent, the City of Scandia also agrees to provide us with printer's proofs final reproduced material for our approval before it is distributed. In the event our auditor/client relationship has been terminated when the City of Scandia seeks such consent, we will be under no obligation to grant such consent or approval.

Thank you for the opportunity to serve you.

Sincerely,

*Schlenner Wenner & Co.*

**SCHLENNER WENNER & CO.**

**CITY OF SCANDIA, MINNESOTA**  
**AUDITED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

**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 ..... 4

**BASIC FINANCIAL STATEMENTS:**

*Government-wide Financial Statements*

Statement of Net Position ..... 14

Statement of Activities ..... 15

*Fund Financial Statements*

Balance Sheet-Governmental Funds..... 16

Reconciliation of the Balance Sheet-Governmental Funds  
to the Statement of Net Position ..... 17

Statement of Revenues, Expenditures, and  
Changes in Fund Balances-Governmental Funds ..... 18

Reconciliation of Changes in Fund Balance of Governmental  
Funds to the Statement of Activities..... 19

Statement of Net Position-Proprietary Funds ..... 20

Statement of Revenues, Expenses, and  
Changes in Net Position-Proprietary Funds ..... 21

Statement of Cash Flows-Proprietary Funds ..... 22

Statement of Fiduciary Net Position..... 23

Notes to the Basic Financial Statements..... 24

**REQUIRED SUPPLEMENTARY INFORMATION:**

Budgetary Comparison Schedule-General Fund..... 48

Schedule of City's Proportionate Share of Net Pension Liability..... 49

Schedule of City Contributions ..... 49

Schedule of Changes in Net Pension Liability (Asset) ..... 50

**OTHER SUPPLEMENTARY INFORMATION:**

Supplemental Combining Balance Sheet - Major Governmental Fund - Debt Service Fund ..... 51

Supplemental Combining Schedule of Revenues, Expenditures, and  
Changes in Fund Balance - Major Governmental Fund - Debt Service Fund ..... 52

Combining Balance Sheet - All Nonmajor Governmental Funds ..... 53

Combining Statement of Revenues, Expenditures, and  
Changes in Fund Balances - All Nonmajor Governmental Funds ..... 54

**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* ..... 55

Schedule of Findings and Responses..... 57

Independent Auditors' Report on Minnesota Legal Compliance..... 58

**INTRODUCTORY  
SECTION**

**CITY OF SCANDIA, MINNESOTA  
CITY COUNCIL AND OFFICIALS  
FOR THE YEAR ENDED DECEMBER 31, 2016**

<b>CITY COUNCIL</b>		<u>Term Expires</u>
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
 <b>CITY OFFICIALS</b>		
Neil Soltis	City Administrator	
Colleen Firkus	Treasurer	

**FINANCIAL  
SECTION**

## INDEPENDENT AUDITORS' REPORT

April 13, 2017

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, 2016, 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.

### 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, 2016, 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.

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St. Cloud  
320.251.0286

Little Falls  
320.632.6311

Albany  
320.845.2940

Maple Lake  
320.963.5414

Monticello  
763.295.5070

## **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, Schedule of City's Proportionate Share of Net Pension Liability, Schedule of 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, supplementary combining debt service fund schedules, and combining and individual nonmajor fund financial statements, as listed in the table of contents, are presented for the purposes of additional analysis and are not a required part of the basic financial statements.

The introductory section, supplementary combining debt service fund schedules, and combining and individual nonmajor fund financial statements 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 13, 2017 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 13, 2017, on our consideration of the 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, 2016**

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, 2016. Please read it in conjunction with the independent auditor's report on page two and the City's financial statements, which begin on page fourteen.

**FINANCIAL HIGHLIGHTS**

- The City's net position increased \$684,872 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 \$526,000. 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 \$168,000.
- The City's General Fund generated more revenue than budgeted of \$89,481. Expenditures were less than budgeted by \$290,601, including transfers to other funds which did not exceed budgeted amounts.
- The unassigned fund balance in the General Fund of \$1,759,867 is 84% of the 2016 General Fund budgeted expenditures.
- In the City's Sewer utility funds, revenues increased \$8,033 (or 8.61 percent), while operating expenses decreased \$13,981 (or 11.85 percent). The City's utility funds operated at a net loss of \$40,761, with the cash position increased \$19,807, due to fewer capital improvements during in 2016.

**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 fourteen and fifteen) 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 sixteen. 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 six. 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, liabilities and deferred outflows/inflows of resources 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, 2016**

**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 eight. The fund financial statements begin on page sixteen 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, 2016**

**THE CITY AS A WHOLE**

The City's combined net position increased \$684,872 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	
	2016	2015	2016	2015	2016	2015
<b>Assets</b>						
Current and Other Assets	3,455,810	\$ 3,450,395	67,579	39,548	\$ 3,523,389	\$ 3,489,943
Net Capital Assets	<u>9,981,972</u>	<u>9,456,193</u>	<u>993,252</u>	<u>1,036,390</u>	<u>10,975,224</u>	<u>10,492,583</u>
<b>Total Assets</b>	<b>13,437,782</b>	<b>12,906,588</b>	<b>1,060,831</b>	<b>1,075,938</b>	<b>14,498,613</b>	<b>13,982,526</b>
Deferred Outflows of Resources	203,774	39,424	18,568	3,210	222,342	42,634
<b>Liabilities</b>						
Current & Other Liabilities	595,264	475,490	49,383	21,844	644,647	497,334
Long-Term Debt Outstanding	<u>577,000</u>	<u>745,000</u>	<u>-</u>	<u>-</u>	<u>577,000</u>	<u>745,000</u>
<b>Total Liabilities</b>	<b>1,172,264</b>	<b>1,220,490</b>	<b>49,383</b>	<b>21,844</b>	<b>1,221,647</b>	<b>1,242,334</b>
Deferred Inflows of Resources	<u>67,659</u>	<u>39,430</u>	<u>4,386</u>	<u>1,005</u>	<u>72,045</u>	<u>40,435</u>
<b>Net Position</b>						
Net Investment in						
Capital Assets	9,404,972	8,711,193	993,252	1,036,390	10,398,224	9,747,583
Restricted	166,691	195,126	-	-	166,691	195,126
Unrestricted	<u>2,829,970</u>	<u>2,779,773</u>	<u>32,378</u>	<u>19,909</u>	<u>2,862,348</u>	<u>2,799,682</u>
<b>Total Net Position</b>	<b><u>\$12,401,633</u></b>	<b><u>\$11,686,092</u></b>	<b><u>\$ 1,025,630</u></b>	<b><u>\$ 1,056,299</u></b>	<b><u>\$13,427,263</u></b>	<b><u>\$12,742,391</u></b>

The net position of the City's governmental activities increased by \$715,543 (or 6.12 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 \$50,197 (or 1.81 percent) compared to the prior year.

The net position of the City's business-type activities decreased by \$30,671 (or 2.90 percent), while the unrestricted net position increased from \$19,909 to \$32,378 due to fewer unrestricted funds used for capital outlays. Operations were comparable to the prior year.

**CITY OF SCANDIA, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2016**

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

**Table 2  
Changes in Net Position**

	Governmental Activities		Business-Type Activities		Total Government	
	2016	2015	2016	2015	2016	2015
<b>Program Revenues</b>						
Charges for Services	\$ 245,302	\$ 227,132	\$ 91,220	\$ 86,213	\$ 336,522	\$ 313,345
Grants and Contributions	133,109	55,628	9,688	6,721	142,797	62,349
Taxes	2,267,065	2,264,524	-	-	2,267,065	2,264,524
Intergovernmental	25,669	87,236	175	-	25,844	87,236
Investment Income	11,828	9,875	227	343	12,055	10,218
Other	66,556	23,652	-	-	66,556	23,652
<b>Total Revenues</b>	<b>2,749,529</b>	<b>2,668,047</b>	<b>101,310</b>	<b>93,277</b>	<b>2,850,839</b>	<b>2,761,324</b>
<b>Program Expenses</b>						
General Government	488,880	499,996	-	-	488,880	499,996
Public Safety	368,621	340,909	-	-	368,621	340,909
Public Works	967,057	1,050,232	-	-	967,057	1,050,232
Parks and Recreation	103,303	94,646	-	-	103,303	94,646
Economic Development	90,811	365	-	-	90,811	365
Debt Service	15,314	26,972	-	-	15,314	26,972
201 Sewer	-	-	110,202	101,179	110,202	101,179
Uptown Sewer	-	-	21,779	16,821	21,779	16,821
<b>Total Expenses</b>	<b>2,033,986</b>	<b>2,013,120</b>	<b>131,981</b>	<b>118,000</b>	<b>2,165,967</b>	<b>2,131,120</b>
<b>Change in Net Position</b>	<b>\$ 715,543</b>	<b>\$ 654,927</b>	<b>\$ (30,671)</b>	<b>\$ (24,723)</b>	<b>\$ 684,872</b>	<b>\$ 630,204</b>

The City's total revenues increased by \$89,515 (or 3.24 percent), largely due to an increase in charges for services and by various increases in other areas. Significant changes included:

- Building permits increased by \$21,394 over 2015 (17%).
- Property taxes increased by \$2,541 (0.11%) from 2015.
- Contractual road maintenance expenditures decreased by \$38,451 (14%) in 2016.
- State grants received increased by \$77,481 (139%) over 2015 due to a \$90,486 grant received for the construction of storm shelters at the Oakhill Cottages which are owned and operated by the Washington County HRA.

The total cost of all programs and services increased by \$34,847 (or 1.64 percent), primarily due to expenses incurred by reimbursing the Washington County HRA for construction costs with the proceeds from the grant discussed above.

**CITY OF SCANDIA, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2016**

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

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

**Governmental Activities**

Revenue for the City's governmental activities increased \$81,482 (or 3.05 percent), while total expenses also increased by \$20,866 (or 1.04 percent). Revenues and expenses were generally consistent year to year, with the exception of the matters 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 economic development previously mentioned.

**Table 3  
Governmental Activities**

	Total Cost of Services		Net Cost of Services	
	2016	2015	2016	2015
General Government	\$ 488,880	\$ 499,996	\$ 311,603	\$ 331,753
Public Safety	368,621	340,909	300,483	262,823
Public Works	967,057	1,050,232	957,608	1,044,870
Parks and Recreation	103,303	94,646	70,242	63,577
Economic Development	90,811	365	325	365
Debt Service	15,314	26,972	15,314	26,972
Totals	<u>\$ 2,033,986</u>	<u>\$ 2,013,120</u>	<u>\$ 1,655,575</u>	<u>\$ 1,730,360</u>

**Business-type Activities**

Revenues of the City's business-type activities (see Table 2) increased by \$8,033 (or 8.61 percent). Expenses increased by \$13,981 (or 11.85 percent). Operations were comparable to those of the prior year.

**THE CITY'S FUNDS**

**Governmental Funds**

As the City completed the year, its governmental funds (as presented in the balance sheet on page sixteen) reported a combined fund balance of \$3,138,893. This is an increase of \$63,841 (or 2.08 percent) from the prior year. This increase in fund balance is the net result of a multitude of transactions, but a few of the largest contributing factors unique to the current year's operations are as follows:

- Revenue from building permits issued by the City exceeded budgeted amounts by \$72,361 (96%).

**CITY OF SCANDIA, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2016**

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

**Governmental Funds** (Continued)

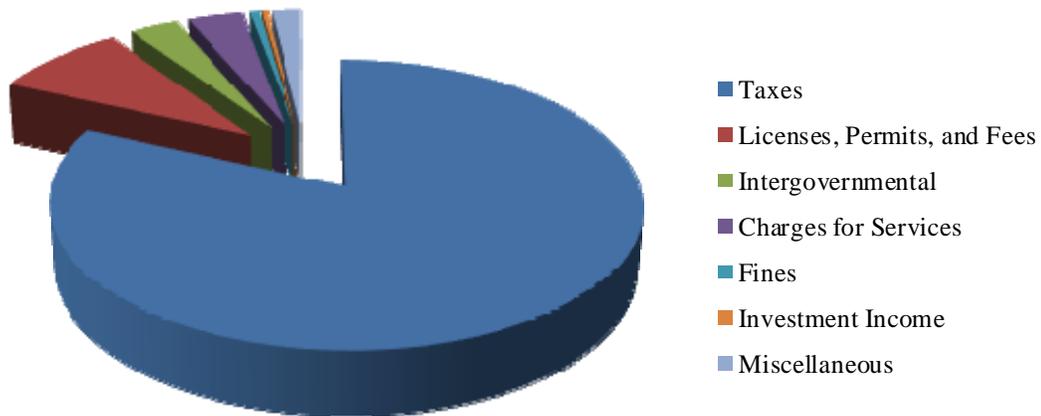
- During 2016, the City received an insurance dividend of approximately \$17,144, an increase of \$5,796 (51%) from 2015.
- Expenditures for planning and buildings services exceeded budgeted amounts by \$16,397 (17%), a decrease of \$7,397 (7%) from 2015.
- Revenues for zoning and planning services decreased by \$9,424 (76%) from 2015, and were \$4,105 (59%) less than budgeted amounts for 2016.
- In 2016, property tax revenues and capital expenditures from the Local Road Improvement Fund exceeded 2015 amounts by \$236,142 (68%) and \$338,649 (54%), respectively. These funds were used to 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)
	2016	2015	
<b>General</b>	\$ 1,771,828	1,746,587	\$ 25,241

The fund balance of the General Fund increased by \$25,241 as a result of current year operations. In comparison to the prior year, revenues and expenditures decreased approximately 5.16 and 5.53 percent, respectively.

**General Fund Revenue**



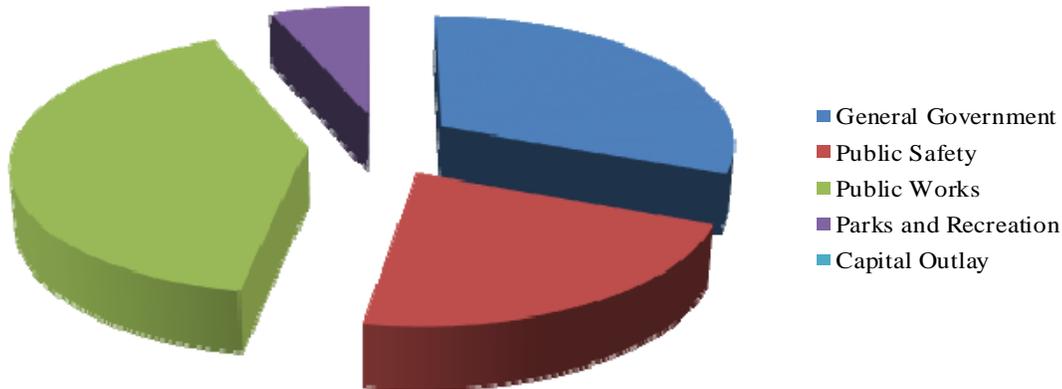
The City receives the majority of its funding in the General Fund in the form of taxes (82 percent) and licenses, permits, and fees (9 percent). Overall, the City's General Fund revenues were comparable to the prior year.

**CITY OF SCANDIA, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2016**

**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 (41 percent). Remaining expenditures are used primarily on public safety (22 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 \$89,481. Expenditures were less than those budgeted by \$290,601. 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-eight.

Major Funds	Fund Balance December 31,		Increase (Decrease)
	2016	2015	
<b>Debt Service</b>	\$ 113,621	\$ 113,260	\$ 361
<b>Equipment Replacement Fund</b>	\$ 501,061	\$ 470,608	\$ 30,453

At December 31, 2016 the Equipment Replacement Fund has a cash balance of \$501,061. The fund balance of the Equipment Replacement Fund increased by \$30,453, primarily due to the sale of capital assets. Significant activity in this fund during 2016 includes the sale of an old fire and rescue truck for \$28,650.

**CITY OF SCANDIA, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2016**

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

**Governmental Funds** (Continued)

Major Funds	Fund Balance December 31,		Increase
	2016	2015	(Decrease)
<b>Capital Improvement Fund</b>	\$ 384,831	\$ 356,057	\$ 28,774

At December 31, 2016 the Capital Improvement Fund has a cash balance of \$326,803. The fund balance increased by \$28,774, primarily due to the accumulation of funds to be spent for pending capital improvements.

<b>Local Road Improvement Fund</b>	\$ 374,020	\$ 402,956	\$ (28,936)
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At December 31, 2016 the Local Road Improvement Fund has a cash balance of \$376,379. The fund balance decreased by \$28,936, primarily due to the outlay of funds for the City's 2016 Street Improvement Projects including the Streets of 236<sup>th</sup> and 237<sup>th</sup> and Avenues of Novak and Oldfield.

<b>Public Housing Fund</b>	\$ -	\$ -	-
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At December 31, 2016 the Public Housing Fund had no cash balance, but consisted only of a FEMA Hazard Mitigation grant receivable of \$90,486 and a corresponding payable to the Washington County HRA for reimbursement on the construction for a storm shelter at the Oakhill Cottages.

**Proprietary Funds**

As the City completed the year, its business-type activities (as presented in the statement of net position on page twenty) reported a combined net position of \$1,025,630. This is a decrease of \$30,671 from the prior year. 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,		Increase
	2016	2015	(Decrease)
<b>201 Sewer Fund</b>	\$ 864,676	\$ 892,727	\$ (28,051)

The 201 Sewer Fund provides sanitary sewer services to customers in the Anderson-Erickson and Bliss subdivisions. At December 31, 2016 the fund had a cash balance of \$68,210 with an increase in cash of \$17,025 for the year. The increase in cash is attributable to fewer capital assets replaced in the current year. The fund's net position decreased \$28,051 during the current year as a result of operating expenses exceeding revenues from charges for services and other activities.

<b>Uptown Sewer Fund</b>	\$ 160,954	\$ 163,572	\$ (2,618)
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The Uptown Sewer Fund provides sanitary sewer services to customers near the Olinda Trail / Oakhill intersection. At December 31, 2016 the fund had a cash balance of \$2,782 with an increase in cash of \$2,782 for the year. The fund's net position decreased \$2,618 during the year as a result of operating expenses exceeding revenues from charges for services and other activities. Operations in this fund were comparable to the prior year.

**CITY OF SCANDIA, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2016**

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

At the end of 2016, the City had \$10,975,224 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 \$482,641 (or 4.60 percent) from last year.

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

	Governmental Activities		Business-Type Activities		Totals	
	2016	2015	2016	2015	2016	2015
Land	\$ 487,735	\$ 487,735	\$ -	\$ -	\$ 487,735	\$ 487,735
Construction in Progress	-	42,484	-	-	-	42,484
Buildings	1,314,690	1,364,529	-	-	1,314,690	1,364,529
Equipment and Vehicles	1,111,668	1,239,092	112,868	121,130	1,224,536	1,360,222
Infrastructure	7,010,619	6,259,565	-	-	7,010,619	6,259,565
Other Improvements	57,260	62,788	-	-	57,260	62,788
201 Sewer System	-	-	690,000	720,000	690,000	720,000
Uptown Sewer	-	-	190,384	195,260	190,384	195,260
<b>Totals</b>	<b>\$ 9,981,972</b>	<b>\$ 9,456,193</b>	<b>\$ 993,252</b>	<b>\$ 1,036,390</b>	<b>\$ 10,975,224</b>	<b>\$ 10,492,583</b>

Significant capital asset acquisitions during 2016 were:

- Reconstruction of 236<sup>th</sup> Street - \$248,779
- Reconstruction of 237<sup>th</sup> Street - \$204,354
- Reconstruction of Novak Avenue - \$48,867
- Reconstruction of Oldfield Avenue - \$463,806

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

**Debt**

In 2016 the City paid off \$168,000 of the \$745,000 in debt that was outstanding at December 31, 2015. The City did not issue any new debt for 2016. The year-end December 31, 2016 debt outstanding totaled \$577,000. 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 2017 budget, such as tax rates and fees that will be charged for the business-type activities. The property tax levy for 2017 was not increased over the 2016 levy. The levy amount allocated to the General Fund increased by \$47,452 over 2016 (3.2%) in order to provide funding for the Comprehensive Plan update. The General Fund levy increase was offset by decreases in property tax funding for debt service and road improvements. The budget for General Fund revenues increased by \$127,428 and expenditures increased \$240,370. The largest increases in budgeted General Fund expenditures were for increasing the transfer to the Local Road Improvement Fund (\$175,476) and funding the Comprehensive Plan update (\$42,000). Sewer rates for the 201 sewer system were increased by 5%. No increase was proposed for the Uptown system.

**CITY OF SCANDIA, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2016**

**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, 2016**

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 3,207,443	\$ 70,992	\$ 3,278,435
Property Taxes Receivable	68,677	-	68,677
Assessments Receivable	46,061	10,073	56,134
Accounts Receivable	11,608	14,746	26,354
Due from Other Governments	90,486	-	90,486
Interest Receivable	496	-	496
Prepays	5,634	796	6,430
Inventory	6,327	-	6,327
Internal Balances	29,028	(29,028)	-
Noncurrent Assets:			
Net Pension Asset	80,536	-	80,536
Capital Assets not Being Depreciated	487,735	-	487,735
Capital Assets Being Depreciated (Net)	9,494,237	993,252	10,487,489
<b>TOTAL ASSETS</b>	13,528,268	1,060,831	14,589,099
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Pensions	203,774	18,568	222,342
<b>LIABILITIES</b>			
Accounts Payable	122,738	3,835	126,573
Due to Other Governments	90,486	-	90,486
Accrued Payroll, Taxes, and Benefits	23,658	465	24,123
Accrued Interest	2,506	-	2,506
Unearned Revenue	3,932	-	3,932
Noncurrent Liabilities:			
Net Pension Liability	417,729	45,083	462,812
Compensated Absences	24,701	-	24,701
Debt Due Within One Year	98,000	-	98,000
Debt Due After One Year	479,000	-	479,000
<b>TOTAL LIABILITIES</b>	1,262,750	49,383	1,312,133
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Pensions	67,659	4,386	72,045
<b>NET POSITION</b>			
Net Investment in Capital Assets	9,404,972	993,252	10,398,224
Restricted	166,691	-	166,691
Unrestricted	2,829,970	32,378	2,862,348
<b>TOTAL NET POSITION</b>	\$ 12,401,633	\$ 1,025,630	\$ 13,427,263

**CITY OF SCANDIA, MINNESOTA  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2016**

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	\$ 488,880	\$ 177,277	\$ -	\$ -	\$ (311,603)	\$ -	\$ (311,603)
Public Safety	368,621	33,216	34,922	-	(300,483)	-	(300,483)
Public Works	967,057	3,532	-	5,917	(957,608)	-	(957,608)
Parks and Recreation	103,303	31,277	1,784	-	(70,242)	-	(70,242)
Economic Development	90,811	-	-	90,486	(325)	-	(325)
Debt Service	15,314	-	-	-	(15,314)	-	(15,314)
<b>Total Governmental Activities</b>	<b>2,033,986</b>	<b>245,302</b>	<b>36,706</b>	<b>96,403</b>	<b>(1,655,575)</b>	<b>-</b>	<b>(1,655,575)</b>
<b>Business-Type Activities:</b>							
201 Sewer	110,202	72,103	-	9,688	-	(28,411)	(28,411)
Uptown Sewer	21,779	19,117	-	-	-	(2,662)	(2,662)
<b>Total Business-Type Activities</b>	<b>131,981</b>	<b>91,220</b>	<b>-</b>	<b>9,688</b>	<b>-</b>	<b>(31,073)</b>	<b>(31,073)</b>
<b>TOTALS</b>	<b>\$ 2,165,967</b>	<b>\$ 336,522</b>	<b>\$ 36,706</b>	<b>\$ 106,091</b>	<b>(1,655,575)</b>	<b>(31,073)</b>	<b>(1,686,648)</b>
<b>General Revenues:</b>							
Taxes					2,267,065	-	2,267,065
Intergovernmental					25,669	175	25,844
Investment Income					11,828	227	12,055
Miscellaneous					39,295	-	39,295
Net Gain on Disposal of Assets					27,261	-	27,261
<b>Total General Revenues</b>					<b>2,371,118</b>	<b>402</b>	<b>2,371,520</b>
<b>CHANGE IN NET POSITION</b>					<b>715,543</b>	<b>(30,671)</b>	<b>684,872</b>
<b>NET POSITION-BEGINNING OF YEAR</b>					<b>11,686,090</b>	<b>1,056,301</b>	<b>12,742,391</b>
<b>NET POSITION-END OF YEAR</b>					<b>\$ 12,401,633</b>	<b>\$ 1,025,630</b>	<b>\$ 13,427,263</b>

**CITY OF SCANDIA, MINNESOTA  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2016**

	General Fund	Debt Service Fund	Equipment Replacement Fund	Capital Improvement Fund	Local Road Improvement Fund	Public Housing Fund	Total Nonmajor Funds	Total Governmental Funds
<b>ASSETS</b>								
Cash and Cash Equivalents	\$ 1,867,081	\$ 113,587	\$ 501,061	\$ 326,803	\$ 376,379	\$ -	\$ 22,532	\$ 3,207,443
Property Taxes Receivable	68,643	34	-	-	-	-	-	68,677
Assessments Receivable	-	46,061	-	-	-	-	-	46,061
Accounts Receivable	11,608	-	-	-	-	-	-	11,608
Due from Other Governments	-	-	-	-	-	90,486	-	90,486
Interest Receivable	496	-	-	-	-	-	-	496
Prepays	5,634	-	-	-	-	-	-	5,634
Inventory	6,327	-	-	-	-	-	-	6,327
Advance to Other Fund	-	-	-	58,028	-	-	-	58,028
<b>TOTAL ASSETS</b>	<b>\$ 1,959,789</b>	<b>\$ 159,682</b>	<b>\$ 501,061</b>	<b>\$ 384,831</b>	<b>\$ 376,379</b>	<b>\$ 90,486</b>	<b>\$ 22,532</b>	<b>\$ 3,494,760</b>
<b>LIABILITIES</b>								
Accounts Payable	\$ 120,379	\$ -	\$ -	\$ -	\$ 2,359	\$ -	\$ -	\$ 122,738
Due to Other Governments	-	-	-	-	-	90,486	-	90,486
Accrued Payroll, Taxes, and Benefits	23,658	-	-	-	-	-	-	23,658
Unearned Revenue	3,932	-	-	-	-	-	-	3,932
Advance from Other Fund	-	-	-	-	-	-	29,000	29,000
Total Liabilities	147,969	-	-	-	2,359	90,486	29,000	269,814
<b>DEFERRED INFLOWS OF RESOURCES</b>								
Unavailable Revenue:								
Property Taxes	39,992	-	-	-	-	-	-	39,992
Special Assessments	-	46,061	-	-	-	-	-	46,061
Total Deferred Inflows of Resources	39,992	46,061	-	-	-	-	-	86,053
<b>FUND BALANCES</b>								
Nonspendable	11,961	-	-	58,028	-	-	-	69,989
Restricted	-	113,621	9,515	-	-	-	-	123,136
Committed	-	-	-	326,803	134,443	-	5,091	466,337
Assigned	-	-	491,546	-	239,577	-	-	731,123
Unassigned	1,759,867	-	-	-	-	-	(11,559)	1,748,308
Total Fund Balances	1,771,828	113,621	501,061	384,831	374,020	-	(6,468)	3,138,893
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>	<b>\$ 1,959,789</b>	<b>\$ 159,682</b>	<b>\$ 501,061</b>	<b>\$ 384,831</b>	<b>\$ 376,379</b>	<b>\$ 90,486</b>	<b>\$ 22,532</b>	<b>\$ 3,494,760</b>

**CITY OF SCANDIA, MINNESOTA  
RECONCILIATION OF THE BALANCE SHEET-GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET POSITION  
DECEMBER 31, 2016**

Total fund balance for governmental funds	\$	3,138,893
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets (net of accumulated depreciation of \$5,872,226) used in governmental activities are not financial resources and, therefore are not reported in the funds.		9,981,972
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Other long-term assets are not available to pay for current-period expenditures and therefore are reported as unavailable revenue in the funds.		86,053
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.		
Accrued Interest		(2,506)
Compensated Absences		(24,701)

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		(98,000)
Debt Due After One Year		(479,000)

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		80,536
Net Pension Liability - PERA General Employees Retirement Fund		(417,729)
Deferred Outflows - Pensions		203,774
Deferred Inflows - Pensions		(67,659)

<b>TOTAL NET POSITION OF GOVERNMENTAL ACTIVITIES</b>	<b>\$</b>	<b><u>12,401,633</u></b>
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**CITY OF SCANDIA, MINNESOTA**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

	General Fund	Debt Service Fund	Equipment Replacement Fund	Capital Improvement Fund	Local Road Improvement Fund	Public Housing Fund	Total Nonmajor Funds	Total Governmental Funds
<b>REVENUES</b>								
Taxes	\$ 1,507,907	\$ 148,582	\$ -	\$ 30,000	\$ 581,142	\$ -	\$ -	\$ 2,267,631
Special Assessments	-	36,157	-	-	-	-	-	36,157
Licenses, Permits, and Fees	160,513	-	-	-	-	-	-	160,513
Intergovernmental	57,259	-	-	-	-	90,486	-	147,745
Charges for Services	65,056	-	-	-	-	-	6,000	71,056
Fines	11,633	-	-	-	-	-	-	11,633
Investment Income	6,891	420	1,803	1,144	1,490	-	80	11,828
Miscellaneous	34,628	-	-	-	6,514	-	2,193	43,335
<b>TOTAL REVENUES</b>	<b>1,843,887</b>	<b>185,159</b>	<b>1,803</b>	<b>31,144</b>	<b>589,146</b>	<b>90,486</b>	<b>8,273</b>	<b>2,749,898</b>
<b>EXPENDITURES</b>								
Current:								
General Government	456,159	-	-	-	-	-	-	456,159
Public Safety	320,972	-	-	-	-	-	-	320,972
Public Works	603,019	-	-	2,370	-	-	-	605,389
Parks and Recreation	90,772	-	-	-	-	-	-	90,772
Economic Development	-	-	-	-	-	90,486	325	90,811
Debt Service:								
Principal	-	168,000	-	-	-	-	-	168,000
Interest and Other Charges	-	16,798	-	-	-	-	-	16,798
Capital Outlay	-	-	-	-	965,806	-	-	965,806
<b>TOTAL EXPENDITURES</b>	<b>1,470,922</b>	<b>184,798</b>	<b>-</b>	<b>2,370</b>	<b>965,806</b>	<b>90,486</b>	<b>325</b>	<b>2,714,707</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>372,965</b>	<b>361</b>	<b>1,803</b>	<b>28,774</b>	<b>(376,660)</b>	<b>-</b>	<b>7,948</b>	<b>35,191</b>
<b>OTHER FINANCING SOURCES (USES)</b>								
Proceeds on Sale of Assets	-	-	28,650	-	-	-	-	28,650
Operating Transfers In	-	-	-	-	347,724	-	-	347,724
Operating Transfers Out	(347,724)	-	-	-	-	-	-	(347,724)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(347,724)</b>	<b>-</b>	<b>28,650</b>	<b>-</b>	<b>347,724</b>	<b>-</b>	<b>-</b>	<b>28,650</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>25,241</b>	<b>361</b>	<b>30,453</b>	<b>28,774</b>	<b>(28,936)</b>	<b>-</b>	<b>7,948</b>	<b>63,841</b>
<b>FUND BALANCES - BEGINNING</b>	<b>1,746,587</b>	<b>113,260</b>	<b>470,608</b>	<b>356,057</b>	<b>402,956</b>	<b>-</b>	<b>(14,416)</b>	<b>3,075,052</b>
<b>FUND BALANCES - ENDING</b>	<b>\$ 1,771,828</b>	<b>\$ 113,621</b>	<b>\$ 501,061</b>	<b>\$ 384,831</b>	<b>\$ 374,020</b>	<b>\$ -</b>	<b>\$ (6,468)</b>	<b>\$ 3,138,893</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, 2016**

Net change in fund balances - total governmental funds \$ 63,841

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	\$ 965,806	
Loss on the Disposal of Assets	(1,389)	
Depreciation Expense	<u>(438,638)</u>	525,779

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	(30,806)
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Proceeds from the issuance of long-term debt is an other financing source in the governmental funds, while repayment of debt principal is an expenditure in the governmental funds. However, neither transaction has any effect on net position:

Bond Payments	168,000
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Net change in accrued interest on bonds is not reported as an expenditure in the funds:

	1,484
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:

Change in Compensated Absences	(3,401)
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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:

	<u>(9,354)</u>
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<b>CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES</b>	<b><u><u>\$ 715,543</u></u></b>
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**CITY OF SCANDIA, MINNESOTA  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
DECEMBER 31, 2016**

	201 Sewer Fund	Uptown Sewer Fund	Totals
<b>ASSETS</b>			
Current Assets			
Cash and Cash Equivalents	\$ 68,210	\$ 2,782	\$ 70,992
Accounts Receivable	10,493	4,253	14,746
Prepays	716	80	796
Assessments Receivable	10,073	-	10,073
Total Current Assets	89,492	7,115	96,607
Noncurrent Assets			
Capital Assets Being Depreciated (Net)	802,868	190,384	993,252
<b>TOTAL ASSETS</b>	892,360	197,499	1,089,859
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Pensions	14,361	4,207	18,568
<b>LIABILITIES</b>			
Current Liabilities			
Accounts Payable	3,489	346	3,835
Accrued Salaries	295	170	465
Total Current Liabilities	3,784	516	4,300
Noncurrent Liabilities			
Net Pension Liability	34,869	10,214	45,083
Advance from Other Fund	-	29,028	29,028
Total Noncurrent Liabilities	34,869	39,242	74,111
<b>TOTAL LIABILITIES</b>	38,653	39,758	78,411
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Pensions	3,392	994	4,386
<b>NET POSITION</b>			
Net Investment in Capital Assets	802,868	190,384	993,252
Unrestricted	61,808	(29,430)	32,378
<b>TOTAL NET POSITION</b>	\$ 864,676	\$ 160,954	\$ 1,025,630

**CITY OF SCANDIA, MINNESOTA**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>201 Sewer Fund</u>	<u>Uptown Sewer Fund</u>	<u>Totals</u>
<b>OPERATING REVENUES</b>			
Charges for Services	\$ 72,103	\$ 19,117	\$ 91,220
<b>OPERATING EXPENSES</b>			
Wages and Benefits	36,263	11,324	47,587
Materials and Supplies	619	30	649
Professional Services	5,298	204	5,502
Repairs and Maintenance	20,363	2,240	22,603
Other Services and Charges	9,397	3,105	12,502
Depreciation	<u>38,262</u>	<u>4,876</u>	<u>43,138</u>
<b>TOTAL OPERATING EXPENSES</b>	<u>110,202</u>	<u>21,779</u>	<u>131,981</u>
<b>NET OPERATING LOSS</b>	(38,099)	(2,662)	(40,761)
<b>NONOPERATING INCOME</b>			
Special Assessments	9,688	-	9,688
Intergovernmental	136	39	175
Investment Income	<u>222</u>	<u>5</u>	<u>227</u>
<b>TOTAL NONOPERATING INCOME</b>	<u>10,046</u>	<u>44</u>	<u>10,090</u>
<b>CHANGE IN NET POSITION</b>	(28,053)	(2,618)	(30,671)
<b>NET POSITION-BEGINNING OF YEAR</b>	<u>892,729</u>	<u>163,572</u>	<u>1,056,301</u>
<b>NET POSITION-END OF YEAR</b>	<u>\$ 864,676</u>	<u>\$ 160,954</u>	<u>\$ 1,025,630</u>

**CITY OF SCANDIA, MINNESOTA  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2016**

	201 Sewer Fund	Uptown Sewer Fund	Totals
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash Received from Customers	\$ 70,305	\$ 19,407	\$ 89,712
Cash Paid to Suppliers	(34,333)	(5,516)	(39,849)
Cash Paid to Employees	(25,858)	(8,370)	(34,228)
	<u>10,114</u>	<u>5,521</u>	<u>15,635</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>			
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Intergovernmental Cash Receipts	136	39	175
Special Assessments	6,553	-	6,553
Net Advances to/from Other Funds	-	(143)	(143)
Net Operating Subsidies and Transfers to/from Other Funds	-	(2,640)	(2,640)
	<u>6,689</u>	<u>(2,744)</u>	<u>3,945</u>
<b>NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES</b>			
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Investment Income	222	5	227
	<u>17,025</u>	<u>2,782</u>	<u>19,807</u>
Net Increase in Cash and Cash Equivalents			
Cash and Cash Equivalents-Beginning of Year	51,185	-	51,185
	<u>\$ 68,210</u>	<u>\$ 2,782</u>	<u>\$ 70,992</u>
<b>RECONCILIATION OF NET OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>			
Net Operating Loss	\$ (38,099)	\$ (2,662)	\$ (40,761)
Adjustments to Reconcile Net Operating Loss to Net Cash Provided by Operating Activities			
Depreciation Expense	38,262	4,876	43,138
Change in Assets, Liabilities, and Deferred Outflows/Inflows			
Accounts Receivable	(1,800)	291	(1,509)
Prepays	(716)	(80)	(796)
Accounts Payable	2,061	142	2,203
Accrued Wages	118	81	199
Deferred Outflows of Resources - Pension	(11,838)	(3,520)	(15,358)
Net Pension Liability	19,508	5,630	25,138
Deferred Inflows of Resources - Pension	2,618	763	3,381
	<u>\$ 10,114</u>	<u>\$ 5,521</u>	<u>\$ 15,635</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>			

**CITY OF SCANDIA, MINNESOTA**  
**STATEMENT OF FIDUCIARY NET POSITION**  
**FIDUCIARY FUND**  
**DECEMBER 31, 2016**

	<u>Agency Fund</u>
<b>ASSETS</b>	
Cash and Cash Equivalents	\$ <u>26,292</u>
<b>LIABILITIES</b>	
Accounts Payable	\$ <u>26,292</u>

**CITY OF SCANDIA, MINNESOTA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

**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, 2016**

**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 *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 *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 *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 *Public Housing Fund* is a special revenue fund used to account for funds received by the City and remitted to the County, for the purpose of financing a storm shelter project being completed by the Washington County HRA.

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 *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.

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

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

**CITY OF SCANDIA, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**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, 2016**

**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 are reported as “advances from and to other funds.” Interfund receivables and payables between funds within governmental activities and interfund receivables and payables between funds within business-type 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, 2016**

**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.

**Noncurrent Liabilities**

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, 2016**

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

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

**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.

**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.

**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, 2016**

**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, 2016 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 (resolution) of the City Council, which is the highest level of decision making authority. Committed amounts cannot be used for any other purpose unless the City Council modifies or rescinds the commitment by resolution.

Assigned – Amounts that are constrained by the City’s intent to be used for specific purposes, but are neither restricted nor committed. The City Administrator or his/her designee shall have the authority to assign fund balance.

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, 2016**

**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 for collection the following year. The County creates 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 also collects all special assessments, except for certain prepayments paid directly to the City. The County collects all taxes and assessments, except as noted above. The County 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.

**CITY OF SCANDIA, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**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 standby 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, 2016, the City has a deficit fund balance of \$11,559 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.

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;

**CITY OF SCANDIA, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

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

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

**Deposits (Continued)**

- Unrated general obligation securities of a local government, with taxing powers, pledged as collateral against funds deposited by that same local government entity;
- Irrevocable standby letter of credit issued by a Federal Home Loan Bank accompanied by written evidence that the Federal Home Loan Bank's public debt is rated "AA" or better by Moody's or Standard and Poor's; or
- Time deposits insured by any federal agency.

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

At December 31, 2016, 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 City's agent in the City'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, 2016, the City does not hold any investments.

**CITY OF SCANDIA, MINNESOTA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

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

**3.B.        CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2016 is as follows:

	Balance at 01/01/16	Additions	Disposals	Transfers	Balance at 12/31/16
Governmental Activities:					
Capital Assets not Being					
Depreciated					
Land	\$ 487,735	\$ -	\$ -	\$ -	\$ 487,735
Construction In Progress	42,484	965,806	(1,389)	(1,006,901)	-
Total Capital Assets not Being					
Depreciated	530,219	965,806	(1,389)	(1,006,901)	487,735
Capital Assets Being					
Depreciated					
Buildings	2,272,131	-	-	-	2,272,131
Equipment	863,936	-	-	-	863,936
Vehicles	1,454,751	-	(75,500)	-	1,379,251
Infrastructure	9,832,185	-	(150,589)	1,006,901	10,688,497
Other Improvements	162,648	-	-	-	162,648
Total Capital Assets Being					
Depreciated	14,585,651	-	(226,089)	1,006,901	15,366,463
Less: Accumulated Depreciation					
Buildings	(907,602)	(49,839)	-	-	(957,441)
Equipment	(452,391)	(62,378)	-	-	(514,769)
Vehicles	(627,205)	(65,045)	75,500	-	(616,750)
Infrastructure	(3,572,620)	(255,847)	150,589	-	(3,677,878)
Other Improvements	(99,859)	(5,529)	-	-	(105,388)
Total Accumulated					
Depreciation	(5,659,677)	(438,638)	226,089	-	(5,872,226)
Total Capital Assets Being					
Depreciated, Net	8,925,974	(438,638)	-	1,006,901	9,494,237
Capital Assets, Net	<u>\$ 9,456,193</u>	<u>\$ 527,168</u>	<u>\$ (1,389)</u>	<u>\$ -</u>	<u>\$ 9,981,972</u>

**CITY OF SCANDIA, MINNESOTA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

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

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

	Balance at 01/01/16	Additions	Disposals	Balance at 12/31/16
Business-Type Activities:				
Capital Assets Being Depreciated				
Sewer Plant	\$ 1,500,000	\$ -	\$ -	\$ 1,500,000
Equipment	123,925	-	-	123,925
Uptown Sewer	243,827	-	-	243,827
Total Capital Assets Being Depreciated	1,867,752	-	-	1,867,752
Less: Accumulated Depreciation				
Sewer Plant	(780,000)	(30,000)	-	(810,000)
Equipment	(2,795)	(8,262)	-	(11,057)
Uptown Sewer	(48,567)	(4,876)	-	(53,443)
Total Accumulated Depreciation	(831,362)	(43,138)	-	(874,500)
Business-Type Activities	\$ 1,036,390	\$ (43,138)	\$ -	\$ 993,252

Depreciation is charged to governmental activities as follows:

General Government	\$ 16,202
Public Safety	58,870
Public Works	351,651
Parks and Recreation	11,915
Total Depreciation Expense	\$ 438,638

**3.C.        NONCURRENT LIABILITIES**

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, 2016**

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

**3.C.        NONCURRENT LIABILITIES (Continued)**

**Debt Detail**

As of December 31, 2016, the long-term debt of the financial reporting entity consists of the following:

Governmental Activities

General Obligation Bonds						
Type of Debt	Issue Date	Annual Payment	Interest Rate(s)	Maturity Date	Original Amount	Remaining Amount
2013 Equipment Certificate	7/13	\$50,000 - 65,000	0.80-3.10%	7/23	\$ 570,000	\$ 405,000
2015 Equipment Certificate	5/15	\$43,000	1.40-2.30%	7/20	215,000	172,000
Total Governmental Activities Bonds Payable						577,000
Bonds Due Within One Year						98,000
Bonds Due After One Year						<u>\$ 479,000</u>

**Changes in Noncurrent Liabilities**

The following is a summary of changes in noncurrent liabilities for the year ended December 31, 2016:

Type of Debt	Balance 1/1/16	Additions	Deductions	Balance 12/31/16	Amounts Due Within One Year
<i>Governmental Activities</i>					
General Obligation Bonds	\$ 745,000	\$ -	\$ (168,000)	\$ 577,000	\$ 98,000
Compensated Absences	21,300	26,868	(23,467)	24,701	-
Net Pension Liability	285,824	131,905	-	417,729	-
Total Long-Term Debt	<u>\$ 1,052,124</u>	<u>\$ 158,773</u>	<u>\$ (191,467)</u>	<u>\$ 1,019,430</u>	<u>\$ 98,000</u>
<i>Business-Type Activities</i>					
Net Pension Liability	<u>\$ 19,945</u>	<u>\$ 25,138</u>	<u>\$ -</u>	<u>\$ 45,083</u>	<u>\$ -</u>

Interest and other fiscal changes total \$15,314 in the Statement of Activities (included in Debt Service line). Interest and other fiscal changes total \$16,798 for the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds (included in the line Interest and Other Charges).

Governmental activity debt is typically funded through the Debt Service Fund. Compensated absences and Net Pension Liability are funded through the funds to which the respective employees' wages are allocated.

**CITY OF SCANDIA, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

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

**3.C.       NONCURRENT LIABILITIES (Continued)**

**Annual Debt Service Requirements**

At December 31, 2016, 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
2017	\$ 98,000	\$ 12,982	\$ 110,982
2018	98,000	11,282	109,282
2019	98,000	9,310	107,310
2020	103,000	7,049	110,049
2021	60,000	4,500	64,500
Thereafter	120,000	3,720	123,720
Totals	\$ 577,000	\$ 48,843	\$ 625,843

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

Operating transfers consist of the following for the year ended December 31, 2016:

Major Fund	Transfers Out	Transfers In
		Local Road Improvement Fund
General	\$ 347,724	\$ 347,724

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, 2016**

**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	\$ 29,028	Sewer improvements
Capital Improvement	Park Capital Improvement	<u>29,000</u>	Finance parking lot
Total Interfund Balances		<u>\$ 58,028</u>	
Governmental Fund Elimination		<u>(29,000)</u>	
Government-wide Internal Balances		<u>\$ 29,028</u>	

The Uptown Sewer Fund monies owed to the Capital Improvement Fund will be repaid as future sewer charges are collected and the cash flows become available. The Park Capital Improvement Fund 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, 2016, governmental fund equity consists of the following:

General Fund		
Nonspendable - Prepaids and Inventory		\$ 11,961
Unassigned		<u>1,759,867</u>
Total General Fund Balance		<u>\$ 1,771,828</u>
Debt Service Fund		
Restricted for Debt Service		<u>\$ 113,621</u>
Equipment Replacement Fund		
Restricted for Equipment Replacement		\$ 9,515
Assigned for Equipment Replacement		<u>491,546</u>
Total Equipment Replacement Fund Balance		<u>\$ 501,061</u>

**CITY OF SCANDIA, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

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

**3.E.        FUND EQUITY (Continued)**

Capital Improvement Fund	
Nonspendable - Advance to Other Fund	\$       58,028
Committed for Capital Improvements	326,803
Total Capital Improvement Fund	\$       384,831
Local Road Improvement Fund	
Committed for Local Road Improvements	\$       134,443
Assigned for Local Road Improvement	239,577
Total Local Road Improvement Fund	\$       374,020
Other Governmental Funds	
Committed for Economic Development	\$           5,091
Unassigned	(11,559)
Total Other Governmental Funds Balance	\$       (6,468)

**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 Plan (General Employees Plan (accounted for in the General Employees Fund))

All full-time and certain part-time employees of the City of Scandia are covered by the General Employees Plan. General Employees Plan 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, 2016**

**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.

General Employees Plan 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.

General Employees Fund 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 2016. The City was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2016. The City's contributions to the General Employees Fund for the year ended December 31, 2016 were \$24,941. The City's contributions were equal to the required contributions as set by state statute.

**Pension Costs**

General Employees Fund Pension Costs

At December 31, 2016, the City reported a liability of \$462,812 for its proportionate share of the General Employees Fund's net pension liability. The City's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$6 million to the fund in 2016. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the City totaled \$6,071. The net pension liability was measured as of June 30, 2016, 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, 2015 through June 30, 2016 relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the City's proportion share was 0.0057%, which was a decrease of 0.0002% from its proportion measured as of June 30, 2015.

**CITY OF SCANDIA, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**NOTE 4 OTHER NOTES (Continued)**

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

**Pension Costs (Continued)**

For the year ended December 31, 2016, the City recognized pension expense of \$61,556 for its proportionate share of the General Employees Fund's pension expense. In addition, the City recognized an additional \$1,810 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$6 million to the General Employees Fund.

At December 31, 2016, the City reported its proportionate share of the General Employees Fund'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	\$ -	\$ 37,597
Changes in actuarial assumptions	90,619	-
Difference between projected and actual investment earnings	87,844	-
Changes in proportion	-	7,430
Contributions paid to PERA subsequent to the measurement date	12,146	-
Total City Deferred Outflows/Inflows	\$ 190,609	\$ 45,027

A total of \$12,146 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, 2017. 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
2017	\$ 37,251
2018	\$ 37,251
2019	\$ 42,216
2020	\$ 16,718

**Actuarial Assumptions**

The total pension liability in the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions:

Assumptions	Rates
Inflation	2.50% per year
Active Member Payroll Growth	3.25% per year
Investment Rate of Return	7.50%

**CITY OF SCANDIA, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**NOTE 4 OTHER NOTES (Continued)**

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

**Actuarial Assumptions (Continued)**

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2014 tables for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be: 1.00% for all future years.

Actuarial assumptions used in the June 30, 2016 valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2015.

The following changes in actuarial assumptions occurred in 2016:

General Employees Fund

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2035 and 2.5% per year thereafter to 1.0% per year for all future years.
- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate was changed from 7.9% to 7.5%.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

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 in 2016 was 7.50%, a reduction from the 7.90% used in 2015. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Fund 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.

**CITY OF SCANDIA, MINNESOTA  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 DECEMBER 31, 2016**

**NOTE 4 OTHER NOTES (Continued)**

**4.B. EMPLOYEE DEFINED CONTRIBUTION PENSION PLAN - STATEWIDE**

**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 (6.5%)	Discount Rate (7.5%)	1% Increase in Discount Rate (8.5%)
Net Pension Liability	\$ 657,330	\$ 462,812	\$ 305,582

**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).

**Defined Contribution Plan**

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 2016 amount to \$721.

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

**Plan Description**

The Scandia Fire/Rescue participates in the Statewide Volunteer Firefighter Retirement Plan (Volunteer Firefighter Plan accounted for in the Volunteer Firefighter Fund), an agent multiple-employer lump-sum defined benefit pension plan administered by the Public Employees Retirement Association of Minnesota (PERA). The Volunteer Firefighter Plan covers volunteer firefighters of municipal fire departments or independent nonprofit firefighting corporations that have elected to join the plan. As of December 31, 2015, the plan covered 25 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.

**CITY OF SCANDIA, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**NOTE 4 OTHER NOTES (Continued)**

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

**Benefits Provided**

The Volunteer Firefighter Plan provides 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 approved by the City of Scandia. 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 Volunteer Firefighter Plan is funded by fire state aid, investment earnings and, if necessary, employer contributions as specified in *Minnesota Statutes*, and voluntary City contributions. The State of Minnesota contributed \$34,766 in fire state aid to the plan on behalf of the Scandia Fire/Rescue for the year ended December 31, 2015, 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 Volunteer Firefighter Plan for the year ended December 31, 2016, was \$0. The City of Scandia contributions were equal to the required contributions as set by state statute.

**Pension Costs**

At December 31, 2016, the City of Scandia reported a net pension asset of \$80,536 for the Volunteer Firefighter Plan. The net pension asset was measured as of December 31, 2015. 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, 2015. The following table presents the changes in net pension asset during the year.

	<u>Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net Pension Liability (Asset)</u>
Beginning Balance 12/31/14	\$ 636,294	\$ 730,400	\$ (94,106)
Service Cost	23,343	-	23,343
Interest on Pension Liability	38,665	-	38,665
Actuarial Experience (Gains)/Losses	(13,108)	-	(13,108)
Projected Investment Earnings	-	43,824	(43,824)
Contributions (State)	-	34,766	(34,766)
Asset (Gain)/Loss	-	(42,457)	42,457
Benefit Payouts	(30,453)	(30,453)	-
PERA Administrative Fee	-	(803)	803
Net Changes	<u>18,447</u>	<u>4,877</u>	<u>13,570</u>
Balance End of Year 12/31/15	<u>\$ 654,741</u>	<u>\$ 735,277</u>	<u>\$ (80,536)</u>

For the year ended December 31, 2016, the City of Scandia recognized pension expense of \$24,856.

**CITY OF SCANDIA, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**NOTE 4 OTHER NOTES (Continued)**

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

**Pension Costs (Continued)**

At December 31, 2016, the City of Scandia reported deferred inflows of resources and deferred outflows of resources related to the pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 27,018
Difference between projected and actual investment earnings	31,733	-
Total City Deferred Outflows/Inflows	\$ 31,733	\$ 27,018

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
2017	\$ (385)
2018	\$ (385)
2019	\$ (385)
2020	\$ 5,870

**Actuarial Assumptions**

The total pension liability at December 31, 2015, 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 2015.

**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 Volunteer Firefighter 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.

**CITY OF SCANDIA, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**NOTE 4 OTHER NOTES (Continued)**

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

**Pension Liability Sensitivity**

The following presents the City's net pension asset for the Volunteer Firefighter 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:

	1% Decrease in Discount Rate (5.0%)	Discount Rate (6.0%)	1% Increase in Discount Rate (7.0%)
Net Pension Asset	\$ 68,081	\$ 80,536	\$ 92,710

**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.

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.

**CITY OF SCANDIA, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**NOTE 4 OTHER NOTES (Continued)**

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

**Plan Investments (Continued)**

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 Volunteer Firefighter Plan's fiduciary net position as of December 31, 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).

**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.

**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 2017 contract budget, expenditures anticipated under this agreement for 2017 are estimated at \$120,186.

**4.F. SUBSEQUENT EVENTS**

Subsequent to year-end and prior to issuance of these financial statements, the City approved the purchase of a dump truck at a final cost of \$159,916, which is net of a \$41,000 credit received for the trade-in of an existing dump truck.

### **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, 2016**

	Budget Amounts- Original and Final	Actual Amounts Budgetary Basis	Variance with Final Budget Over (Under)
<b>RESOURCES (INFLOWS):</b>			
Taxes	\$ 1,519,950	\$ 1,507,907	\$ (12,043)
Licenses, Permits, and Fees	91,295	160,513	69,218
Intergovernmental	42,146	57,259	15,113
Charges for Services	70,015	65,056	(4,959)
Fines	12,000	11,633	(367)
Investment Income	4,500	6,891	2,391
Miscellaneous	14,500	34,628	20,128
<b>AMOUNTS AVAILABLE</b>	1,754,406	1,843,887	89,481
<b>CHARGES TO APPROPRIATIONS (OUTFLOWS):</b>			
General Government:			
Mayor and Council	18,976	17,645	(1,331)
Planning and Buildings	96,206	112,603	16,397
Elections	6,150	5,428	(722)
General Government	322,849	320,483	(2,366)
Public Safety:			
Police	116,197	120,696	4,499
Fire	238,076	200,276	(37,800)
Public Works	848,929	603,019	(245,910)
Parks and Recreation	109,140	90,772	(18,368)
Capital Outlay	5,000	-	(5,000)
Transfers Out	347,724	347,724	-
<b>TOTAL CHARGES</b>	2,109,247	1,818,646	(290,601)
<b>NET CHANGE IN FUND BALANCE</b>	\$ (354,841)	25,241	\$ 380,082
<b>FUND BALANCE - BEGINNING</b>		1,746,587	
<b>CASH FUND BALANCE - ENDING</b>		\$ 1,771,828	

**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 Portion of the Net Pension Liability (Asset)	City's Proportionate Share of the Net Pension Liability (Asset) (a)	State's Proportionate Share of the Net Pension Liability Associated with the City (b)	City's Proportionate Share of the Net Pension Liability Associated with the City (a+b)	City's Covered- Employee Payroll (c)	Proportionate Share of the Net Pension Liability as a Percentage of its Covered- Employee Payroll ((a+b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
<b>General Employees Retirement Fund Pension Plan</b>							
2016	0.0057%	\$ 462,812	\$ 6,071	\$ 468,883	\$ 357,680	131.1%	68.9%
2015	0.0059%	\$ 305,769	-	\$ 305,769	\$ 342,106	89.4%	78.2%

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

For the Calendar Year Ended December 31	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contribution	Contribution Deficiency (Excess)	City's Covered-Employee Payroll	Contributions as a Percentage of Covered- Employee Payroll
<b>General Employees Retirement Fund Pension Plan</b>					
2016	\$ 24,941	\$ 24,941	-	\$ 334,592	7.5%
2015	\$ 25,468	\$ 25,468	-	\$ 348,155	7.3%
<b>Statewide Volunteer Firefighter Pension Plan</b>					
2016	-	-	-	N/A	N/A
2015	-	-	-	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)**

	2015	2014
<b>Changes in Total Pension Liability (TPL)</b>		
Balance at January 1st	\$ 636,294	\$ 629,967
Service Cost	23,343	22,874
Interest on the TPL	38,665	38,350
Actuarial Experience (Gains)/Losses	(13,108)	(27,553)
Benefit Payments	(30,453)	(27,344)
Balance at December 31st	\$ 654,741	\$ 636,294
<b>Plan Fiduciary Net Position (PFNP)</b>		
Balance at January 1st	\$ 730,400	\$ 658,422
Fire State Aid	27,129	24,368
Fire Supplemental Aid	6,638	5,896
Supplemental Benefit Reimbursement	1,000	2,955
Municipal Contributions	-	18,259
Adjustment to Initial Asset Transfer	-	5,368
Net Investment Income	1,367	43,226
Total Additions	36,134	100,072
Benefit Payments	(30,453)	(27,344)
Administrative Expenses	(804)	(750)
Total Reductions	(31,257)	(28,094)
Balance at December 31st	\$ 735,277	\$ 730,400
Net Pension Liability (Asset) - December 31st	\$ (80,536)	\$ (94,106)
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	112%	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:

Supplemental Combining Schedules – Major Governmental Fund - Debt Service Fund  
Combining Statements – All Nonmajor Governmental Funds

**CITY OF SCANDIA, MINNESOTA  
SUPPLEMENTAL COMBINING BALANCE SHEET  
MAJOR GOVERNMENTAL FUND - DEBT SERVICE FUND  
DECEMBER 31, 2016**

	2007 Improvement Bond	2010 Equipment Certificates	2011 Equipment Certificates	2013 Equipment Certificates	2015 Equipment Certificates	Total Debt Service
<b>ASSETS</b>						
Cash and Cash Equivalents	\$ 79,283	\$ 10,177	\$ 8,312	\$ 13,776	\$ 2,039	\$ 113,587
Property Taxes Receivable	34	-	-	-	-	34
Assessments Receivable	46,061	-	-	-	-	46,061
<b>TOTAL ASSETS</b>	<u>\$ 125,378</u>	<u>\$ 10,177</u>	<u>\$ 8,312</u>	<u>\$ 13,776</u>	<u>\$ 2,039</u>	<u>\$ 159,682</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Unavailable Revenue: Special Assessments	\$ 46,061	\$ -	\$ -	\$ -	\$ -	\$ 46,061
<b>FUND BALANCES</b>						
Restricted	<u>79,317</u>	<u>10,177</u>	<u>8,312</u>	<u>13,776</u>	<u>2,039</u>	<u>113,621</u>
<b>TOTAL DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<u>\$ 125,378</u>	<u>\$ 10,177</u>	<u>\$ 8,312</u>	<u>\$ 13,776</u>	<u>\$ 2,039</u>	<u>\$ 159,682</u>

**CITY OF SCANDIA, MINNESOTA**  
**SUPPLEMENTAL COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**MAJOR GOVERNMENTAL FUND - DEBT SERVICE FUND**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

	2007 Improvement Bond	2010 Equipment Certificates	2011 Equipment Certificates	2013 Equipment Certificates	2015 Equipment Certificates	Total Debt Service
<b>REVENUES</b>						
Taxes	\$ -	\$ -	\$ 32,734	\$ 69,092	\$ 46,756	\$ 148,582
Special Assessments	36,157	-	-	-	-	36,157
Investment Income	226	117	28	45	4	420
<b>TOTAL REVENUES</b>	<b>36,383</b>	<b>117</b>	<b>32,762</b>	<b>69,137</b>	<b>46,760</b>	<b>185,159</b>
<b>EXPENDITURES</b>						
Debt Service:						
Principal	-	40,000	30,000	55,000	43,000	168,000
Interest and Other Charges	-	710	1,185	10,882	4,021	16,798
<b>TOTAL EXPENDITURES</b>	<b>-</b>	<b>40,710</b>	<b>31,185</b>	<b>65,882</b>	<b>47,021</b>	<b>184,798</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>36,383</b>	<b>(40,593)</b>	<b>1,577</b>	<b>3,255</b>	<b>(261)</b>	<b>361</b>
<b>OTHER FINANCING USES</b>						
Operating Transfers Out	-	(2,300)	-	-	2,300	-
<b>NET CHANGE IN FUND BALANCE</b>	<b>36,383</b>	<b>(42,893)</b>	<b>1,577</b>	<b>3,255</b>	<b>2,039</b>	<b>361</b>
<b>FUND BALANCE - BEGINNING</b>	<b>42,934</b>	<b>53,070</b>	<b>6,735</b>	<b>10,521</b>	<b>-</b>	<b>113,260</b>
<b>FUND BALANCE - ENDING</b>	<b>\$ 79,317</b>	<b>\$ 10,177</b>	<b>\$ 8,312</b>	<b>\$ 13,776</b>	<b>\$ 2,039</b>	<b>\$ 113,621</b>

**CITY OF SCANDIA, MINNESOTA  
 COMBINING BALANCE SHEET  
 ALL NONMAJOR GOVERNMENTAL FUNDS  
 DECEMBER 31, 2016**

	Economic Development Authority Fund	Park Capital Improvement Fund	Total Nonmajor Funds
	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 5,091	\$ 17,441	\$ 22,532
	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>LIABILITIES</b>			
Advance from Other Funds	\$ -	\$ 29,000	\$ 29,000
	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>FUND BALANCES</b>			
Committed	5,091	-	5,091
Unassigned	<u>-</u>	<u>(11,559)</u>	<u>(11,559)</u>
Total Fund Balances	<u>5,091</u>	<u>(11,559)</u>	<u>(6,468)</u>
<b>TOTAL LIABILITIES</b>			
<b>AND FUND BALANCES</b>	<u>\$ 5,091</u>	<u>\$ 17,441</u>	<u>\$ 22,532</u>

**CITY OF SCANDIA, MINNESOTA  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
 AND CHANGES IN FUND BALANCES  
 ALL NONMAJOR GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED DECEMBER 31, 2016**

	Economic Development Authority Fund	Park Capital Improvement Fund	Total Nonmajor Funds
	<u>          </u>	<u>          </u>	<u>          </u>
<b>REVENUES</b>			
Charges for Services	\$ -	\$ 6,000	\$ 6,000
Investment Income	20	60	80
Miscellaneous	-	2,193	2,193
<b>TOTAL REVENUES</b>	<u>20</u>	<u>8,253</u>	<u>8,273</u>
<b>EXPENDITURES</b>			
Current:			
Economic Development	<u>325</u>	<u>-</u>	<u>325</u>
<b>NET CHANGE IN FUND BALANCES</b>	(305)	8,253	7,948
<b>FUND BALANCES - BEGINNING</b>	<u>5,396</u>	<u>(19,812)</u>	<u>(14,416)</u>
<b>FUND BALANCES - ENDING</b>	<u>\$ 5,091</u>	<u>\$ (11,559)</u>	<u>\$ (6,468)</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 13, 2017

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, 2016, 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 13, 2017.

**Internal Control Over Financial Reporting**

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

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

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

## **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, 2016**

**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.

**CORRECTIVE ACTION PLAN (CAP):**

1. Explanation of Disagreement with Audit Finding  
There is no disagreement with the audit finding.
2. Actions Planned in Response to Finding  
The City will review current procedures and implement additional controls where possible.
3. Office Responsible  
Neil Soltis, City Administrator, is the official responsible for ensuring corrective action.
4. Planned Completion Date  
Ongoing.
5. Plan to Monitor Completion  
Ongoing.

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

April 13, 2017

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, 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, 2016, and the related notes to the financial statements, and have issued our report thereon dated April 13, 2017.

The *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minnesota Stat. § 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 tax increment financing, since the City has none.

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 those charged with governance 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