

April 9, 2018

Neil Soltis, City Administrator
City of Scandia
14727 209th 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, 2017. 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previously provided to you in an electronic format should be deleted from your computer, and all printed copies of any superseded preliminary draft versions should likewise be destroyed.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.

CITY OF SCANDIA, MINNESOTA
AUDITED FINANCIAL STATEMENTS
DECEMBER 31, 2017

SCHLENNER WENNER & CO.
Certified Public Accountants
& Business Consultants

**CITY OF SCANDIA, MINNESOTA
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**INTRODUCTORY
SECTION**

**CITY OF SCANDIA, MINNESOTA
CITY COUNCIL AND OFFICIALS
FOR THE YEAR ENDED DECEMBER 31, 2017**

CITY COUNCIL

Term Expires

Christine Maefsky	Mayor	January 1, 2019
Bob Hegland	Council Member	January 1, 2019
Steve Kronmiller	Council Member	January 1, 2021
Chris Ness	Council Member	January 1, 2021
Jim Schneider	Council Member	January 1, 2019

CITY OFFICIALS

Neil Soltis	City Administrator
Colleen Firkus	Treasurer

**FINANCIAL
SECTION**

INDEPENDENT AUDITORS' REPORT

April 9, 2018

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, 2017, 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, 2017, 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, combining and individual nonmajor fund financial statements and schedule of indebtedness, 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, combining and individual nonmajor fund financial statements, and schedule of indebtedness, 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 9, 2018 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 9, 2018, 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.

St. Cloud, Minnesota

**REQUIRED SUPPLEMENTARY
INFORMATION**

**CITY OF SCANDIA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017**

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, 2017. 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 \$753,511 compared to the prior year, primarily due to property taxes levied in 2017 that are intended to be used for a major road project in 2018 and building permit revenues which exceeded the budget by \$264,000
- The City's General Fund generated more revenue than budgeted of \$316,113. Expenditures were less than budgeted by \$138,725, including transfers to other funds which did not exceed budgeted amounts.
- The unassigned fund balance in the General Fund of \$1,701,596 is 72% of the 2017 General Fund budgeted expenditures.
- In the City's Sewer utility funds, revenues increased \$4,441 (or 4.38 percent), while operating expenses decreased \$12,820 (or 9.71 percent). The City's utility funds ended 2017 with a net loss of \$13,410, with the cash position increasing \$17,595, due to fewer capital improvements during in 2017.

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, 2017**

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, 2017**

THE CITY AS A WHOLE

The City's combined net position increased \$753,511 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	
	2017	2016	2017	2016	2017	2016
Assets						
Current and Other Assets	4,481,637	3,455,810	86,231	67,579	\$ 4,567,868	\$ 3,523,389
Net Capital Assets	<u>9,882,633</u>	<u>9,981,972</u>	<u>959,927</u>	<u>993,252</u>	<u>10,842,560</u>	<u>10,975,224</u>
Total Assets	14,364,270	13,437,782	1,046,158	1,060,831	15,410,428	14,498,613
Deferred Outflows of Resources	108,367	203,774	6,969	18,568	115,336	222,342
Liabilities						
Current & Other Liabilities	557,088	595,264	34,425	49,383	591,513	644,647
Long-Term Debt Outstanding	<u>639,000</u>	<u>577,000</u>	-	-	<u>639,000</u>	<u>577,000</u>
Total Liabilities	1,196,088	1,172,264	34,425	49,383	1,230,513	1,221,647
Deferred Inflows of Resources	<u>107,995</u>	<u>67,659</u>	<u>6,482</u>	<u>4,386</u>	<u>114,477</u>	<u>72,045</u>
Net Position						
Net Investment in						
Capital Assets	9,243,633	9,404,972	959,927	993,252	10,203,560	10,398,224
Restricted	78,132	166,691	-	-	78,132	166,691
Unrestricted	<u>3,846,789</u>	<u>2,829,970</u>	<u>52,293</u>	<u>32,378</u>	<u>3,899,082</u>	<u>2,862,348</u>
Total Net Position	<u>\$13,168,554</u>	<u>\$12,401,633</u>	<u>\$ 1,012,220</u>	<u>\$ 1,025,630</u>	<u>\$14,180,774</u>	<u>\$13,427,263</u>

The net position of the City's governmental activities increased by \$766,921 (or 6.18 percent) as a result of the funds levied for 2018 road projects and building permit revenues that exceeded the budget. 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 \$1,016,819 (or 35.93 percent) compared to the prior year.

The net position of the City's business-type activities decreased by \$13,410 (or 1.31 percent), while the unrestricted net position increased from \$32,378 to \$52,293 due to the depreciation of capital assets included in Net Investment in Capital Assets. Operations were comparable to the prior year.

**CITY OF SCANDIA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017**

THE CITY AS A WHOLE (Continued)

**Table 2
Changes in Net Position**

	Governmental Activities		Business-Type Activities		Total Government	
	2017	2016	2017	2016	2017	2016
Program Revenues						
Charges for Services	\$ 444,418	\$ 245,302	\$ 103,789	\$ 91,220	\$ 548,207	\$ 336,522
Grants and Contributions	49,016	133,109	1,367	9,688	50,383	142,797
Taxes	2,264,177	2,267,065	-	-	2,264,177	2,267,065
Intergovernmental	75,193	25,669	9	175	75,202	25,844
Investment Income	25,928	11,828	586	227	26,514	12,055
Other	78,313	66,556	-	-	78,313	66,556
Total Revenues	2,937,045	2,749,529	105,751	101,310	3,042,796	2,850,839
Program Expenses						
General Government	590,400	488,880	-	-	590,400	488,880
Public Safety	386,468	368,621	-	-	386,468	368,621
Public Works	1,058,902	967,057	-	-	1,058,902	967,057
Parks and Recreation	116,445	103,303	-	-	116,445	103,303
Economic Development	326	90,811	-	-	326	90,811
Debt Service	17,583	15,314	-	-	17,583	15,314
201 Sewer	-	-	101,976	110,202	101,976	110,202
Uptown Sewer	-	-	17,185	21,779	17,185	21,779
Total Expenses	2,170,124	2,033,986	119,161	131,981	2,289,285	2,165,967
Change in Net Position	\$ 766,921	\$ 715,543	\$ (13,410)	\$ (30,671)	\$ 753,511	\$ 684,872

The City's total revenues increased by \$191,957 (or 6.73 percent), largely due to an increase in charges for services and by various increases in other areas. Significant changes included:

- Building permits increased by \$207,450 (241%) from 2016.
- Intergovernmental revenues increased due to increased Local Government aids from the State of Minnesota and a Healthy Living Grant from St. Croix County.
- Grants decreased from 2016 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 \$123,318 (or 5.69 percent), primarily due to costs related to the increased number of building inspections, the cost for work on the development of the City's 2040 Comprehensive Plan, and the costs related to the purchase of a new plow truck.

**CITY OF SCANDIA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017**

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 \$187,516 (or 6.82 percent), while total expenses also increased by \$136,138 (or 6.69 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	
	2017	2016	2017	2016
General Government	\$ 590,400	\$ 488,880	\$ 210,247	\$ 311,603
Public Safety	386,468	368,621	311,667	300,483
Public Works	1,058,902	967,057	1,045,695	957,608
Parks and Recreation	116,445	103,303	91,172	70,242
Economic Development	326	90,811	326	325
Debt Service	17,583	15,314	17,583	15,314
Totals	<u>\$ 2,170,124</u>	<u>\$ 2,033,986</u>	<u>\$ 1,676,690</u>	<u>\$ 1,655,575</u>

Business-type Activities

Revenues of the City's business-type activities (see Table 2) increased by \$4,441 (or 4.38 percent). Expenses decreased by \$12,820 (or 9.71 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 \$4,098,057. This is an increase of \$959,164 (or 30.56 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 \$264,811 (394%) and were \$207,450 (241%) greater than 2016. The increase is related to permits for 3 community solar gardens, roof and siding repairs from 2 summer storms, and 22 permits issued for new single-family homes.

**CITY OF SCANDIA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017**

THE CITY'S FUNDS (Continued)

Governmental Funds (Continued)

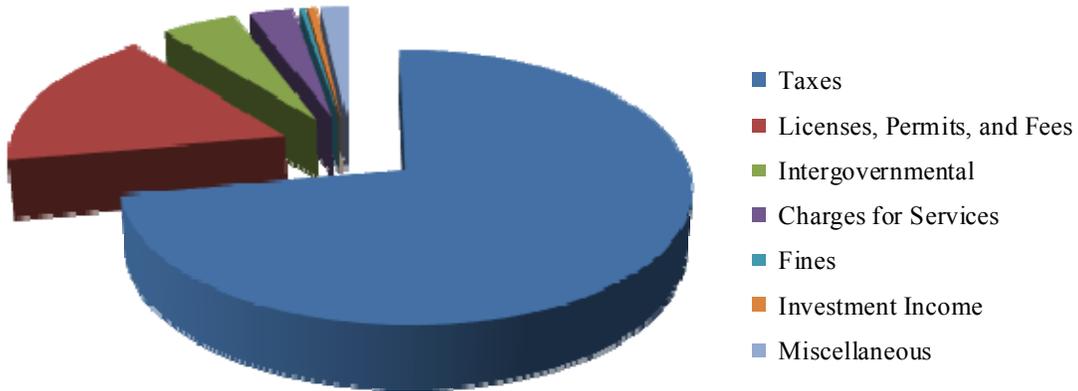
- During 2017, the City received an insurance dividend of \$4,090, a decrease of \$13,054 (76%) from 2016.
- Expenditures for planning and buildings services exceeded budgeted amounts by \$64,887 (44%), an increase of \$101,284 (90%) from 2016.
- In 2017, property tax revenues and capital expenditures from the Local Road Improvement Fund decreased from 2016 amounts by \$20,609 (4%) and \$877,053 (91%), respectively. The decreases were consistent with the City's 2016-2020 Capital Improvement Plan which calls for a major road improvement project every two years.

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)
	2017	2016	
<i>General</i>	\$ 1,715,008	1,771,828	\$ (56,820)

The fund balance of the General Fund decreased by \$56,820 as a result of current year operations. In comparison to the prior year, revenues and expenditures increased approximately 16.83 and 14.74 percent, respectively.

General Fund Revenue



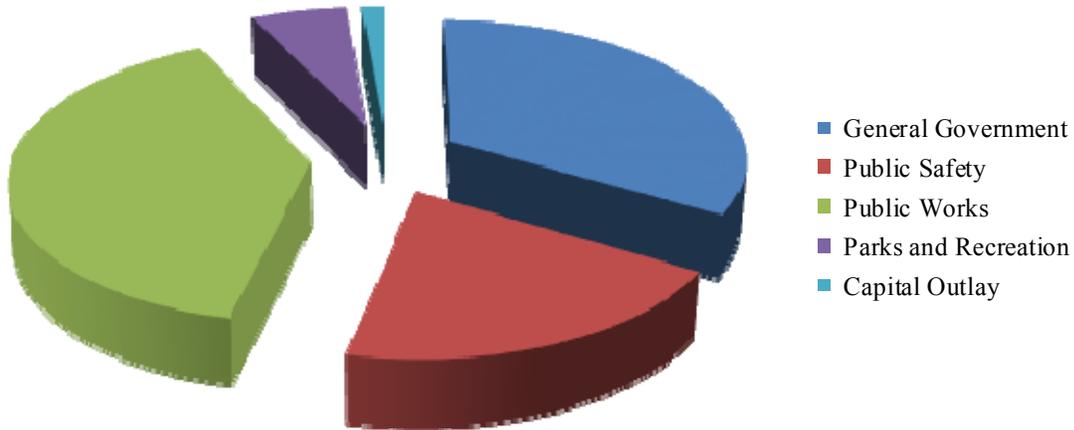
The City receives the majority of its funding in the General Fund in the form of taxes (72 percent) and licenses, permits, and fees (17 percent). Overall, the City's General Fund revenues were comparable to the prior year, with the exception of increased revenue from building permit sales and related expenditures previously discussed.

**CITY OF SCANDIA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017**

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 (39 percent). Remaining expenditures are used primarily on public safety (20 percent) and general government operations (34 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 \$316,113. Expenditures were less than those budgeted by \$138,725. 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)
	2017	2016	
<i>Debt Service</i>	\$ 46,609	\$ 113,621	\$ (67,012)
<i>Equipment Replacement Fund</i>	\$ 477,802	\$ 501,061	\$ (23,259)

At December 31, 2017 the Equipment Replacement Fund has a cash balance of \$477,802. The fund balance of the Equipment Replacement Fund decreased by \$23,259. Significant activity in this fund during 2017 include the purchase of a new plow truck and plow for \$195,094, partially financed through the issuance of \$160,000 of Certificates of Indebtedness.

**CITY OF SCANDIA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017**

THE CITY'S FUNDS (Continued)

Governmental Funds (Continued)

Major Funds	Fund Balance December 31,		Increase (Decrease)
	2017	2016	
<i>Local Road Improvement Fund</i>	\$ 1,455,036	\$ 374,020	\$ 1,081,016

At December 31, 2017 the Local Road Improvement Fund has a cash balance of \$1,510,326. The fund balance increased by \$1,081,016, primarily due to property tax revenue and operating transfers designated for future road projects.

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 \$1,012,220. This is a decrease of \$13,410 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 (Decrease)
	2017	2016	
<i>201 Sewer Fund</i>	\$ 851,042	\$ 864,676	\$ (13,634)

The 201 Sewer Fund provides sanitary sewer services to customers in the Anderson-Erickson and Bliss subdivisions. At December 31, 2017 the fund had a cash balance of \$84,391 with an increase in cash of \$16,181 for the year. The increase in cash is attributable to fewer capital assets replaced in the current year. The fund's net position decreased \$13,634 during the current year as a result of operating expenses exceeding revenues from charges for services and other activities.

<i>Uptown Sewer Fund</i>	\$ 161,178	\$ 160,954	\$ 224
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The Uptown Sewer Fund provides sanitary sewer services to customers near the Olinda Trail / Oakhill intersection. At December 31, 2017 the fund had a cash balance of \$4,196 with an increase in cash of \$1,414 for the year. The fund's net position increased \$224 during the year as a result of operating revenues exceeding expenses 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, 2017**

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2017, the City had \$10,842,560 invested in a broad range of capital assets, including land, buildings, equipment and vehicles, infrastructure, improvements, and sewer systems. This amount represents a net decrease of \$132,664 (or 1.21 percent) from last year.

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

	Governmental Activities		Business-Type Activities		Totals	
	2017	2016	2017	2016	2017	2016
Land	\$ 487,735	\$ 487,735	\$ -	\$ -	\$ 487,735	\$ 487,735
Construction in Progress	88,753	-	-	-	88,753	-
Buildings	1,264,850	1,314,690	-	-	1,264,850	1,314,690
Equipment and Vehicles	1,230,644	1,111,668	114,420	112,868	1,345,064	1,224,536
Infrastructure	6,758,921	7,010,619	-	-	6,758,921	7,010,619
Other Improvements	51,730	57,260	-	-	51,730	57,260
201 Sewer System	-	-	660,000	690,000	660,000	690,000
Uptown Sewer	-	-	185,507	190,384	185,507	190,384
Totals	<u>\$ 9,882,633</u>	<u>\$ 9,981,972</u>	<u>\$ 959,927</u>	<u>\$ 993,252</u>	<u>\$ 10,842,560</u>	<u>\$ 10,975,224</u>

Significant capital asset acquisitions during 2017 were:

- Purchase of a new plow truck and plow - \$195,094
- Purchase of a new tractor - \$41,500
- Engineering design for 2018 road improvement project - \$88,753

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

Debt

In 2017 the City paid off \$98,000 of the \$577,000 in debt that was outstanding at December 31, 2016. The City issued new debt of \$160,000 during 2017 (as previously discussed), bringing the total year-end balance of debt outstanding at December 31, 2017 to \$639,000. 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 2018 budget, such as tax rates and fees that will be charged for the business-type activities. The property tax levy for 2018 was not increased over the 2017 levy. The levy amount allocated to the General Fund decreased by \$201,480 (13%) compared to 2017 in order to reallocate a portion of the Public Works budget for road maintenance to the Local Road Improvement Fund. The budget for General Fund revenues decreased by \$190,380 and expenditures decreased \$188,900. The largest decreases in budgeted General Fund expenditures were for Public Works road maintenance (\$118,100) and decreasing the transfer to the Local Road Improvement Fund (\$123,200). The property tax levy for the Local Road Improvement Fund increased by \$164,517 from 2016. Sewer rates for the 201 sewer system were increased by 10%. Sewer rates for the Uptown system were increased by 10% and the basis for the charge was modified for have a greater portion of the charge based on actual usage.

**CITY OF SCANDIA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017**

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

BASIC FINANCIAL STATEMENTS

**CITY OF SCANDIA, MINNESOTA
STATEMENT OF NET POSITION
DECEMBER 31, 2017**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS			
Cash and Cash Equivalents	\$ 4,220,889	\$ 88,587	\$ 4,309,476
Property Taxes Receivable	57,212	-	57,212
Assessments Receivable	33,805	8,609	42,414
Accounts Receivable	19,967	14,824	34,791
Interest Receivable	3,470	-	3,470
Prepays	6,078	599	6,677
Inventory	7,334	-	7,334
Internal Balances	26,388	(26,388)	-
Noncurrent Assets:			
Net Pension Asset	106,494	-	106,494
Capital Assets not Being Depreciated	576,488	-	576,488
Capital Assets Being Depreciated (Net)	9,306,145	959,927	10,266,072
TOTAL ASSETS	14,364,270	1,046,158	15,410,428
DEFERRED OUTFLOWS OF RESOURCES			
Pensions	108,367	6,969	115,336
LIABILITIES			
Accounts Payable	181,175	8,595	189,770
Accrued Payroll, Taxes, and Benefits	26,035	515	26,550
Accrued Interest	2,282	-	2,282
Unearned Revenue	1,807	-	1,807
Noncurrent Liabilities:			
Net Pension Liability	313,034	25,315	338,349
Compensated Absences	32,755	-	32,755
Debt Due Within One Year	130,000	-	130,000
Debt Due After One Year	509,000	-	509,000
TOTAL LIABILITIES	1,196,088	34,425	1,230,513
DEFERRED INFLOWS OF RESOURCES			
Pensions	107,995	6,482	114,477
NET POSITION			
Net Investment in Capital Assets	9,243,633	959,927	10,203,560
Restricted	78,132	-	78,132
Unrestricted	3,846,789	52,293	3,899,082
TOTAL NET POSITION	\$ 13,168,554	\$ 1,012,220	\$ 14,180,774

**CITY OF SCANDIA, MINNESOTA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2017**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-Type Activities	
Governmental Activities:							
General Government	\$ 590,400	\$ 380,153	\$ -	\$ -	\$ (210,247)	\$ -	\$ (210,247)
Public Safety	386,468	34,500	40,301	-	(311,667)	-	(311,667)
Public Works	1,058,902	7,337	-	5,870	(1,045,695)	-	(1,045,695)
Parks and Recreation	116,445	22,428	2,845	-	(91,172)	-	(91,172)
Economic Development	326	-	-	-	(326)	-	(326)
Debt Service	17,583	-	-	-	(17,583)	-	(17,583)
Total Governmental Activities	2,170,124	444,418	43,146	5,870	(1,676,690)	-	(1,676,690)
Business-Type Activities:							
201 Sewer	101,976	86,418	-	1,367	-	(14,191)	(14,191)
Uptown Sewer	17,185	17,371	-	-	-	186	186
Total Business-Type Activities	119,161	103,789	-	1,367	-	(14,005)	(14,005)
TOTALS	\$ 2,289,285	\$ 548,207	\$ 43,146	\$ 7,237	(1,676,690)	(14,005)	(1,690,695)
General Revenues:							
Taxes					2,264,177	-	2,264,177
Intergovernmental					75,193	9	75,202
Investment Income					25,928	586	26,514
Miscellaneous					28,313	-	28,313
Total General Revenues					2,393,611	595	2,394,206
Net Gain on Disposal of Assets					50,000	-	50,000
CHANGE IN NET POSITION					766,921	(13,410)	753,511
NET POSITION - BEGINNING OF YEAR					12,401,633	1,025,630	13,427,263
NET POSITION - END OF YEAR					\$ 13,168,554	\$ 1,012,220	\$ 14,180,774

**CITY OF SCANDIA, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2017**

	General Fund	Debt Service Fund	Equipment Replacement Fund	Local Road Improvement Fund	Total Nonmajor Funds	Total Governmental Funds
ASSETS						
Cash and Cash Equivalents	\$ 1,810,687	\$ 44,860	\$ 477,802	\$ 1,510,326	\$ 377,214	\$ 4,220,889
Property Taxes Receivable	56,818	394	-	-	-	57,212
Assessments Receivable	-	33,805	-	-	-	33,805
Accounts Receivable	19,967	-	-	-	-	19,967
Interest Receivable	3,470	-	-	-	-	3,470
Prepays	6,078	1,355	-	-	-	7,433
Inventory	7,334	-	-	-	-	7,334
Advance to Other Fund	-	-	-	-	52,388	52,388
TOTAL ASSETS	<u>\$ 1,904,354</u>	<u>\$ 80,414</u>	<u>\$ 477,802</u>	<u>\$ 1,510,326</u>	<u>\$ 429,602</u>	<u>\$ 4,402,498</u>
LIABILITIES						
Accounts Payable	\$ 125,885	\$ -	\$ -	\$ 55,290	\$ -	\$ 181,175
Accrued Payroll, Taxes, and Benefits	26,035	-	-	-	-	26,035
Unearned Revenue	1,807	-	-	-	-	1,807
Advance from Other Fund	-	-	-	-	26,000	26,000
Total Liabilities	153,727	-	-	55,290	26,000	235,017
DEFERRED INFLOWS OF RESOURCES						
Unavailable Revenue:						
Property Taxes	35,619	-	-	-	-	35,619
Special Assessments	-	33,805	-	-	-	33,805
Total Deferred Inflows of Resources	35,619	33,805	-	-	-	69,424
FUND BALANCES						
Nonspendable	13,412	-	-	-	52,388	65,800
Restricted	-	46,609	-	-	-	46,609
Committed	-	-	-	606,223	360,959	967,182
Assigned	-	-	477,802	848,813	-	1,326,615
Unassigned	1,701,596	-	-	-	(9,745)	1,691,851
Total Fund Balances	1,715,008	46,609	477,802	1,455,036	403,602	4,098,057
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u>\$ 1,904,354</u>	<u>\$ 80,414</u>	<u>\$ 477,802</u>	<u>\$ 1,510,326</u>	<u>\$ 429,602</u>	<u>\$ 4,402,498</u>

**CITY OF SCANDIA, MINNESOTA
RECONCILIATION OF THE BALANCE SHEET-GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2017**

Total fund balance for governmental funds	\$	4,098,057
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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 \$6,236,253) used in governmental activities are not financial resources and, therefore are not reported in the funds.		9,882,633
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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.		69,424
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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/Prepaid Interest		(3,637)
Compensated Absences		(32,755)

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		(130,000)
Debt Due After One Year		(509,000)

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		106,494
Net Pension Liability - PERA General Employees Retirement Fund		(313,034)
Deferred Outflows - Pensions		108,367
Deferred Inflows - Pensions		<u>(107,995)</u>

TOTAL NET POSITION OF GOVERNMENTAL ACTIVITIES	\$	<u><u>13,168,554</u></u>
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CITY OF SCANDIA, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017

	General Fund	Debt Service Fund	Equipment Replacement Fund	Local Road Improvement Fund	Total Nonmajor Funds	Total Governmental Funds
REVENUES						
Taxes	\$ 1,556,278	\$ 116,739	\$ -	\$ 560,533	\$ 35,000	\$ 2,268,550
Special Assessments	-	18,126	-	-	-	18,126
Licenses, Permits, and Fees	366,902	-	-	-	-	366,902
Intergovernmental	107,716	-	-	-	-	107,716
Charges for Services	63,886	-	-	-	3,000	66,886
Fines	8,392	-	-	-	-	8,392
Investment Income	12,958	205	3,523	6,718	2,524	25,928
Miscellaneous	38,023	-	-	-	2,450	40,473
TOTAL REVENUES	2,154,155	135,070	3,523	567,251	42,974	2,902,973
EXPENDITURES						
Current:						
General Government	566,215	-	-	-	-	566,215
Public Safety	334,787	-	-	-	-	334,787
Public Works	665,123	-	-	-	7,306	672,429
Parks and Recreation	99,791	-	-	-	3,768	103,559
Economic Development	-	-	-	-	326	326
Debt Service:						
Principal	-	98,000	-	-	-	98,000
Interest and Other Charges	-	16,452	-	-	-	16,452
Capital Outlay	21,859	-	195,094	88,753	6,335	312,041
TOTAL EXPENDITURES	1,687,775	114,452	195,094	88,753	17,735	2,103,809
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	466,380	20,618	(191,571)	478,498	25,239	799,164
OTHER FINANCING SOURCES (USES)						
Equipment Certificates Issued	-	-	160,000	-	-	160,000
Operating Transfers In	-	-	8,312	602,518	-	610,830
Operating Transfers Out	(523,200)	(87,630)	-	-	-	(610,830)
TOTAL OTHER FINANCING SOURCES (USES)	(523,200)	(87,630)	168,312	602,518	-	160,000
NET CHANGE IN FUND BALANCES	(56,820)	(67,012)	(23,259)	1,081,016	25,239	959,164
FUND BALANCES - BEGINNING	1,771,828	113,621	501,061	374,020	378,363	3,138,893
FUND BALANCES - ENDING	\$ 1,715,008	\$ 46,609	\$ 477,802	\$ 1,455,036	\$ 403,602	\$ 4,098,057

**CITY OF SCANDIA, MINNESOTA
RECONCILIATION OF CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2017**

Net change in fund balances - total governmental funds \$ 959,164

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. Gains (losses) related to the disposal of such assets are reported in the Statement of Activities, while governmental funds only report cash proceeds:

Capital Outlay, Net of \$50,000 Trade-in Value	\$ 312,041	
Gain on Sale of Assets	50,000	
Depreciation Expense	<u>(461,380)</u>	(99,339)

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	(16,629)
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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:

Equipment Certificates Issued	(160,000)
Equipment Certificates Principal Payments	98,000

Net change in accrued interest on equipment certificates is not reported as an expenditure in the funds.	(1,131)
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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	(8,054)
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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>(5,090)</u>

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ 766,921</u>
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**CITY OF SCANDIA, MINNESOTA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2017**

	<u>201 Sewer Fund</u>	<u>Uptown Sewer Fund</u>	<u>Totals</u>
ASSETS			
Current Assets			
Cash and Cash Equivalents	\$ 84,391	\$ 4,196	\$ 88,587
Accounts Receivable	10,569	4,255	14,824
Prepays	349	250	599
Assessments Receivable	<u>8,609</u>	<u>-</u>	<u>8,609</u>
Total Current Assets	103,918	8,701	112,619
Noncurrent Assets			
Capital Assets Being Depreciated (Net)	<u>774,420</u>	<u>185,507</u>	<u>959,927</u>
TOTAL ASSETS	878,338	194,208	1,072,546
DEFERRED OUTFLOWS OF RESOURCES			
Pensions	5,195	1,774	6,969
LIABILITIES			
Current Liabilities			
Accounts Payable	8,447	148	8,595
Accrued Salaries	<u>366</u>	<u>149</u>	<u>515</u>
Total Current Liabilities	8,813	297	9,110
Noncurrent Liabilities			
Net Pension Liability	18,851	6,464	25,315
Advance from Other Fund	<u>-</u>	<u>26,388</u>	<u>26,388</u>
Total Noncurrent Liabilities	<u>18,851</u>	<u>32,852</u>	<u>51,703</u>
TOTAL LIABILITIES	27,664	33,149	60,813
DEFERRED INFLOWS OF RESOURCES			
Pensions	<u>4,827</u>	<u>1,655</u>	<u>6,482</u>
NET POSITION			
Net Investment in Capital Assets	774,420	185,507	959,927
Unrestricted	<u>76,622</u>	<u>(24,329)</u>	<u>52,293</u>
TOTAL NET POSITION	<u>\$ 851,042</u>	<u>\$ 161,178</u>	<u>\$ 1,012,220</u>

CITY OF SCANDIA, MINNESOTA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>201 Sewer Fund</u>	<u>Uptown Sewer Fund</u>	<u>Totals</u>
OPERATING REVENUES			
Charges for Services	\$ 86,418	\$ 17,371	\$ 103,789
OPERATING EXPENSES			
Wages and Benefits	17,947	7,928	25,875
Materials and Supplies	863	174	1,037
Professional Services	4,967	120	5,087
Repairs and Maintenance	29,138	1,853	30,991
Other Services and Charges	10,343	2,233	12,576
Depreciation	<u>38,718</u>	<u>4,877</u>	<u>43,595</u>
TOTAL OPERATING EXPENSES	<u>101,976</u>	<u>17,185</u>	<u>119,161</u>
NET OPERATING INCOME (LOSS)	(15,558)	186	(15,372)
NONOPERATING INCOME			
Special Assessments	1,367	-	1,367
Intergovernmental	7	2	9
Investment Income	<u>550</u>	<u>36</u>	<u>586</u>
TOTAL NONOPERATING INCOME	<u>1,924</u>	<u>38</u>	<u>1,962</u>
CHANGE IN NET POSITION	(13,634)	224	(13,410)
NET POSITION - BEGINNING OF YEAR	<u>864,676</u>	<u>160,954</u>	<u>1,025,630</u>
NET POSITION - END OF YEAR	<u>\$ 851,042</u>	<u>\$ 161,178</u>	<u>\$ 1,012,220</u>

**CITY OF SCANDIA, MINNESOTA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017**

	201 Sewer Fund	Uptown Sewer Fund	Totals
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Received from Customers	\$ 86,342	\$ 17,369	\$ 103,711
Cash Paid to Suppliers	(39,986)	(4,748)	(44,734)
Cash Paid to Employees	(23,293)	(8,605)	(31,898)
NET CASH PROVIDED BY OPERATING ACTIVITIES	23,063	4,016	27,079
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Intergovernmental Cash Receipts	7	2	9
Special Assessments	2,831	-	2,831
Net Advances to/from Other Funds	-	(2,640)	(2,640)
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	2,838	(2,638)	200
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchases of Capital Assets	(10,270)	-	(10,270)
CASH FLOW FROM INVESTING ACTIVITIES			
Investment Income	550	36	586
Net Increase in Cash and Cash Equivalents	16,181	1,414	17,595
Cash and Cash Equivalents-Beginning of Year	68,210	2,782	70,992
Cash and Cash Equivalents-End of Year	\$ 84,391	\$ 4,196	\$ 88,587
RECONCILIATION OF NET OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Net Operating Income (Loss)	\$ (15,558)	\$ 186	\$ (15,372)
Adjustments to Reconcile Net Operating Income (Loss) to Net Cash Provided by Operating Activities			
Depreciation Expense	38,718	4,877	43,595
Change in Assets, Liabilities, and Deferred Outflows/Inflows			
Accounts Receivable	(76)	(2)	(78)
Prepays	367	(170)	197
Accounts Payable	4,959	(198)	4,761
Accrued Wages	70	(21)	49
Deferred Outflows of Resources - Pension	9,166	2,433	11,599
Net Pension Liability	(16,018)	(3,750)	(19,768)
Deferred Inflows of Resources - Pension	1,435	661	2,096
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 23,063	\$ 4,016	\$ 27,079

**CITY OF SCANDIA, MINNESOTA
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUND
DECEMBER 31, 2017**

	<u>Agency Fund</u>
ASSETS	
Cash and Cash Equivalents	\$ <u>11,430</u>
LIABILITIES	
Accounts Payable	\$ <u>11,430</u>

CITY OF SCANDIA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

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, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.B. BASIS OF PRESENTATION (Continued)

Fund Financial Statements (Continued)

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

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

The City reports the following major governmental funds:

The *General Fund* is the primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

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

The *Equipment Replacement Fund* is a capital project fund used to account for financial resources to be used for 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 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 nonmajor 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 Funds* account for financial resources to be used for the acquisition or construction of capital projects (other than projects financed by proprietary funds).

CITY OF SCANDIA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

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, 2017

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.

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.

CITY OF SCANDIA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Capital Assets (Continued)

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.

PERA

For purposes of measuring the net pension asset/liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA, except PERA's fiscal year is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

CITY OF SCANDIA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

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, 2017**

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, 2017 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, 2017**

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, 2017**

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 at market value. 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, 2017, the City has a deficit fund balance of \$9,745 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, 2017**

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, 2017, 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, 2017, the City does not hold any investments.

CITY OF SCANDIA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

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

3.B. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2017 is as follows:

	Balance at 01/01/17	Additions	Disposals	Balance at 12/31/17
Governmental Activities:				
Capital Assets not Being				
Depreciated				
Land	\$ 487,735	\$ -	\$ -	\$ 487,735
Construction In Progress	-	88,753	-	88,753
Total Capital Assets not Being				
Depreciated	487,735	88,753	-	576,488
Capital Assets Being				
Depreciated				
Buildings	2,272,131	-	-	2,272,131
Equipment	863,936	151,311	(19,034)	996,213
Vehicles	1,379,251	100,860	(78,319)	1,401,792
Infrastructure	10,688,497	21,117	-	10,709,614
Other Improvements	162,648	-	-	162,648
Total Capital Assets Being				
Depreciated	15,366,463	273,288	(97,353)	15,542,398
Less: Accumulated Depreciation				
Buildings	(957,441)	(49,840)	-	(1,007,281)
Equipment	(514,769)	(64,788)	19,034	(560,523)
Vehicles	(616,750)	(68,407)	78,319	(606,838)
Infrastructure	(3,677,878)	(272,815)	-	(3,950,693)
Other Improvements	(105,388)	(5,530)	-	(110,918)
Total Accumulated				
Depreciation	(5,872,226)	(461,380)	97,353	(6,236,253)
Total Capital Assets Being				
Depreciated, Net	9,494,237	(188,092)	-	9,306,145
Capital Assets, Net	<u>\$ 9,981,972</u>	<u>\$ (99,339)</u>	<u>\$ -</u>	<u>\$ 9,882,633</u>

CITY OF SCANDIA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

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

3.B. CAPITAL ASSETS (Continued)

	Balance at 01/01/17	Additions	Disposals	Balance at 12/31/17
Business-Type Activities:				
Capital Assets Being Depreciated				
Sewer Plant	\$ 1,500,000	\$ -	\$ -	\$ 1,500,000
Equipment	123,925	10,270	-	134,195
Uptown Sewer	243,827	-	-	243,827
Total Capital Assets Being Depreciated	1,867,752	10,270	-	1,878,022
Less: Accumulated Depreciation				
Sewer Plant	(810,000)	(30,000)	-	(840,000)
Equipment	(11,057)	(8,718)	-	(19,775)
Uptown Sewer	(53,443)	(4,877)	-	(58,320)
Total Accumulated Depreciation	(874,500)	(43,595)	-	(918,095)
Business-Type Activities	\$ 993,252	\$ (33,325)	\$ -	\$ 959,927

Depreciation is charged to governmental activities as follows:

General Government	\$ 13,976
Public Safety	59,578
Public Works	375,752
Parks and Recreation	12,074
Total Depreciation Expense	\$ 461,380

3.C. NONCURRENT LIABILITIES

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, 2017**

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

3.C. NONCURRENT LIABILITIES (Continued)

Debt Detail

As of December 31, 2017, the long-term debt of the financial reporting entity consists of the following:

Governmental Activities

Equipment Certificates						
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	\$ 350,000
2015 Equipment Certificate	5/15	\$43,000	1.40-2.30%	7/20	215,000	129,000
2017 Equipment Certificate	8/17	\$32,000	2.35-2.75%	8/22	160,000	160,000
Total Governmental Activities Equipment Certificates Payable						639,000
Equipment Certificates Due Within One Year						<u>130,000</u>
Equipment Certificates Due After One Year						<u>\$ 509,000</u>

Changes in Noncurrent Liabilities

The following is a summary of changes in noncurrent liabilities for the year ended December 31, 2017:

Type of Debt	Balance 1/1/17	Additions	Deductions	Balance 12/31/17	Amounts Due Within One Year
<i>Governmental Activities</i>					
Equipment Certificates	\$ 577,000	\$ 160,000	\$ (98,000)	\$ 639,000	\$ 130,000
Compensated Absences	24,701	28,031	(19,977)	32,755	-
Net Pension Liability	<u>417,729</u>	<u>-</u>	<u>(104,695)</u>	<u>313,034</u>	<u>-</u>
Total Long-Term Debt	<u>\$ 1,019,430</u>	<u>\$ 188,031</u>	<u>\$ (222,672)</u>	<u>\$ 984,789</u>	<u>\$ 130,000</u>
<i>Business-Type Activities</i>					
Net Pension Liability	<u>\$ 45,083</u>	<u>\$ -</u>	<u>\$ (19,768)</u>	<u>\$ 25,315</u>	<u>\$ -</u>

Interest and other fiscal changes total \$17,583 in the Statement of Activities (included in Debt Service line). Interest and other fiscal changes total \$16,452 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, 2017**

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

3.C. NONCURRENT LIABILITIES (Continued)

Annual Debt Service Requirements

At December 31, 2017, 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
2018	\$ 130,000	\$ 15,203	\$ 145,203
2019	130,000	12,638	142,638
2020	135,000	9,593	144,593
2021	92,000	6,228	98,228
2022	92,000	3,670	95,670
2023	60,000	930	60,930
Totals	<u>\$ 639,000</u>	<u>\$ 48,262</u>	<u>\$ 687,262</u>

3.D. INTERFUND TRANSACTIONS AND BALANCES

Operating transfers consist of the following for the year ended December 31, 2017:

Major Fund	Transfers Out	Transfers In		
		Equipment Replacement	Local Road Improvement Fund	Total
General	\$ 523,200	\$ -	\$ 523,200	\$ 523,200
Debt Service	87,630	8,312	79,318	87,630
	<u>\$ 610,830</u>	<u>\$ 8,312</u>	<u>\$ 602,518</u>	<u>\$ 610,830</u>

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

**CITY OF SCANDIA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017**

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

3.D. INTERFUND TRANSACTIONS AND BALANCES (Continued)

The interfund balances are as follows:

Long-Term Advances		Amount	Reason
Due To Fund	Due From Fund		
Capital Improvement	Uptown Sewer	\$ 26,388	Sewer improvements
Capital Improvement	Park Capital Improvement	<u>26,000</u>	Finance parking lot
Total Interfund Balances		<u>\$ 52,388</u>	
Governmental Fund Elimination		<u>(26,000)</u>	
Government-wide Internal Balances		<u>\$ 26,388</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, 2017, governmental fund equity consists of the following:

General Fund		
Nonspendable - Prepaids and Inventory		\$ 13,412
Unassigned		<u>1,701,596</u>
Total General Fund Balance		<u>\$ 1,715,008</u>
Debt Service Fund		
Restricted for Debt Service		<u>\$ 46,609</u>
Equipment Replacement Fund		
Assigned for Equipment Replacement		<u>\$ 477,802</u>
Local Road Improvement Fund		
Committed for Local Road Improvements		\$ 606,223
Assigned for Local Road Improvement		<u>848,813</u>
Total Local Road Improvement Fund		<u>\$ 1,455,036</u>

**CITY OF SCANDIA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017**

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

3.E. FUND EQUITY (Continued)

Other Governmental Funds	
Nonspendable - Advance to Other Fund	\$ 52,388
Committed for Capital Improvements	351,214
Committed for Economic Development	9,745
Unassigned	<u>(9,745)</u>
Total Other Governmental Funds Balance	<u>\$ 403,602</u>

NOTE 4 OTHER NOTES

4.A. EMPLOYEE DEFINED BENEFIT PENSION PLANS - STATEWIDE

Plan Description

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

General Employees Retirement 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.

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.

**CITY OF SCANDIA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 4 OTHER NOTES (Continued)

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

Benefits Provided (Continued)

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 2017. The City was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2017. The City's contributions to the General Employees Fund for the year ended December 31, 2017 were \$27,172. 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, 2017, the City reported a liability of \$338,349 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 2017. 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 \$4,251. The net pension liability was measured as of June 30, 2017, 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, 2016 through June 30, 2017 relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the City's proportion share was 0.0053%, which was a decrease of 0.0004% from its proportion measured as of June 30, 2016.

**CITY OF SCANDIA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 4 OTHER NOTES (Continued)

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

Pension Costs (Continued)

For the year ended December 31, 2017, the City recognized pension expense of \$5,758 for its proportionate share of the General Employees Fund's pension expense. In addition, the City recognized an additional \$123 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, 2017, 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	\$ 11,151	\$ 23,410
Changes in actuarial assumptions	60,413	33,919
Difference between projected and actual investment earnings	6,686	-
Changes in proportion	-	29,312
Contributions paid to PERA subsequent to the measurement date	13,955	-
Total City Deferred Outflows/Inflows	\$ 92,205	\$ 86,641

A total of \$13,955 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, 2018. 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
2018	\$ 7,180
2019	\$ 12,145
2020	\$ (13,354)
2021	\$ (14,362)

Actuarial Assumptions

The total pension liability in the June 30, 2017, 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, 2017**

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 the General Employees through 2044 and then 2.50% thereafter.

Actuarial assumptions used in the June 30, 2017 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 2017:

General Employees Fund

- The Combined Service Annuity (CSA) loads were changed from 0.80% for active members and 60.00% for vested and non-vested deferred members. The revised CSA loads are now 0.00% for active member liability, 15.00% for vested deferred member liability and 3.00% for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.00% for all years, to 1.00% per year through 2044 and 2.50% per year thereafter to.

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 geometric real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Stocks	39%	5.10%
International Stocks	19%	5.30%
Bonds	20%	.75%
Alternative Assets	20%	5.90%
Cash	2%	0.0%

Discount Rate

The discount rate used to measure the total pension liability in 2017 was 7.50%. 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, 2017**

NOTE 4 OTHER NOTES (Continued)

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

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	\$ 524,804	\$ 338,349	\$ 185,701

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.

4.B. EMPLOYEE DEFINED CONTRIBUTION PENSION PLAN - STATEWIDE

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

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

Total contributions made by the City during fiscal year 2017 amount to \$842.

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, 2017, the plan covered 27 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, 2017**

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 \$33,224 in fire state aid to the plan on behalf of the Scandia Fire/Rescue for the year ended December 31, 2016, 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, 2017, was \$0. The City of Scandia contributions were equal to the required contributions as set by state statute.

Pension Costs

At December 31, 2017, the City of Scandia reported a net pension asset of \$160,494 for the Volunteer Firefighter Plan. The net pension asset was measured as of December 31, 2016. 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, 2016. The following table presents the changes in net pension asset during the year.

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
Beginning Balance 12/31/15	\$ 654,741	\$ 735,277	\$ (80,536)
Service Cost	24,777	-	24,777
Interest on Pension Liability	38,089	-	38,089
Actuarial Experience (Gains)/Losses	(11,188)	-	(11,188)
Projected Investment Earnings	-	44,116	(44,116)
Contributions (State)	-	33,224	(33,224)
Asset (Gain)/Loss	-	1,069	(1,069)
Benefit Payouts	(89,400)	(89,400)	-
PERA Administrative Fee	-	(773)	773
Net Changes	<u>(37,722)</u>	<u>(11,764)</u>	<u>(25,958)</u>
Balance End of Year 12/31/16	<u>\$ 617,019</u>	<u>\$ 723,513</u>	<u>\$ (106,494)</u>

For the year ended December 31, 2017, the City of Scandia recognized pension expense of \$17,070.

**CITY OF SCANDIA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 4 OTHER NOTES (Continued)

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

Pension Costs (Continued)

At December 31, 2017, the City of Scandia reported deferred inflows of resources and deferred outflows of resources related to the pension from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ -	\$ 27,836
Difference between projected and actual investment earnings	<u>23,131</u>	<u>-</u>
Total City Deferred Outflows/Inflows	<u>\$ 23,131</u>	<u>\$ 27,836</u>

Amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ended December 31:</u>	<u>Pension Expense</u>
2018	\$ (2,836)
2019	\$ (2,836)
2020	\$ 3,419
2021	\$ (2,452)

Actuarial Assumptions

The total pension liability at December 31, 2016, 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 2016.

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, 2017**

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	\$ 93,762	\$ 106,494	\$ 118,698

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 353G.

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%	5.10%
International Stocks	15%	5.30%
Bonds	45%	0.75%
Cash	5%	0.0%

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, 2017**

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 2016 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, 2016, 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.

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 2018 contract budget, expenditures anticipated under this agreement for 2018 are estimated at \$126,884.

4.F. SUBSEQUENT EVENTS

Subsequent to year-end and prior to issuance of these financial statements, the City initiated the purchase of a brush truck, which is anticipated to have a final cost approximating \$90,000.

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF SCANDIA, MINNESOTA
BUDGETARY COMPARISON SCHEDULE-GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Budget Amounts- Original and Final	Actual Amounts Budgetary Basis	Variance with Final Budget Over (Under)
RESOURCES (INFLOWS):			
Taxes	\$ 1,573,400	\$ 1,556,278	\$ (17,122)
Licenses, Permits, and Fees	101,900	366,902	265,002
Intergovernmental	51,900	107,716	55,816
Charges for Services	64,112	63,886	(226)
Fines	12,000	8,392	(3,608)
Investment Income	5,000	12,958	7,958
Miscellaneous	29,730	38,023	8,293
AMOUNTS AVAILABLE	1,838,042	2,154,155	316,113
CHARGES TO APPROPRIATIONS (OUTFLOWS):			
General Government:			
Mayor and Council	18,900	19,290	390
Planning and Buildings	149,000	213,886	64,886
Elections	1,300	1,766	466
General Government	342,600	331,274	(11,326)
Public Safety:			
Police	120,500	128,656	8,156
Fire	244,500	213,208	(31,292)
Public Works	848,600	679,904	(168,696)
Parks and Recreation	101,100	99,791	(1,309)
Transfers Out	523,200	523,200	-
TOTAL CHARGES	2,349,700	2,210,975	(138,725)
NET CHANGE IN FUND BALANCE	\$ (511,658)	(56,820)	\$ 454,838
FUND BALANCE - BEGINNING		1,771,828	
FUND BALANCE - ENDING		\$ 1,715,008	

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
General Employees Retirement Fund Pension Plan							
2017	0.0053%	\$ 338,349	\$ 4,251	\$ 342,600	\$ 338,175	100.1%	75.9%
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
General Employees Retirement Fund Pension Plan					
2017	\$ 27,172	\$ 27,172	\$ -	\$ 262,292	7.5%
2016	\$ 24,941	\$ 24,941	\$ -	\$ 334,592	7.5%
2015	\$ 25,468	\$ 25,468	\$ -	\$ 348,155	7.3%
Statewide Volunteer Firefighter Pension Plan					
2017	\$ -	\$ -	\$ -	N/A	N/A
2016	\$ -	\$ -	\$ -	N/A	N/A
2015	\$ -	\$ -	\$ -	N/A	N/A

Note: These schedules are provided prospectively beginning with the City's fiscal year ended December 31, 2015 and are intended to show a ten year trend. Additional years will be reported as they become available.

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

	2016	2015	2014
Changes in Total Pension Liability (TPL)			
Balance at January 1st	\$ 654,741	\$ 636,294	\$ 629,967
Service Cost	24,777	23,343	22,874
Interest on the TPL	38,089	38,665	38,350
Actuarial Experience (Gains)/Losses	(11,188)	(13,108)	(27,553)
Benefit Payments	(89,400)	(30,453)	(27,344)
Balance at December 31st	\$ 617,019	\$ 654,741	\$ 636,294
Plan Fiduciary Net Position (PFNP)			
Balance at January 1st	\$ 735,277	\$ 730,400	\$ 658,422
Fire State Aid	26,738	27,129	24,368
Fire Supplemental Aid	6,486	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	45,186	1,367	43,226
Total Additions	78,410	36,134	100,072
Benefit Payments	(89,400)	(30,453)	(27,344)
Administrative Expenses	(774)	(804)	(750)
Total Reductions	(90,174)	(31,257)	(28,094)
Balance at December 31st	\$ 723,513	\$ 735,277	\$ 730,400
Net Pension Liability (Asset) - December 31st	\$ (106,494)	\$ (80,536)	\$ (94,106)
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	117%	112%	115%

Note: The schedule is provided prospectively beginning with the Firefighter Fund's fiscal year ended December 31, 2014 and is intended to show a ten year trend. Additional years will be reported as they become available.

OTHER SUPPLEMENTARY INFORMATION

**CITY OF SCANDIA, MINNESOTA
SUPPLEMENTAL COMBINING BALANCE SHEET
MAJOR GOVERNMENTAL FUND - DEBT SERVICE FUND
DECEMBER 31, 2017**

	2007 Improvement Bond	2010 Equipment Certificates	2011 Equipment Certificates	2013 Equipment Certificates	2015 Equipment Certificates	2017 Equipment Certificates	Total Debt Service
ASSETS							
Cash and Cash Equivalents	\$ 17,756	\$ -	\$ -	\$ 16,374	\$ 13,230	\$ (2,500)	\$ 44,860
Property Taxes Receivable	394	-	-	-	-	-	394
Assessments Receivable	33,805	-	-	-	-	-	33,805
Prepays	-	-	-	-	1,355	-	1,355
TOTAL ASSETS	\$ 51,955	\$ -	\$ -	\$ 16,374	\$ 14,585	\$ (2,500)	\$ 80,414
DEFERRED INFLOWS OF RESOURCES							
Unavailable Revenue: Special Assessments	\$ 33,805	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 33,805
FUND BALANCE							
Restricted	18,150	-	-	16,374	14,585	(2,500)	46,609
TOTAL DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	\$ 51,955	\$ -	\$ -	\$ 16,374	\$ 14,585	\$ (2,500)	\$ 80,414

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, 2017

	2007 Improvement Bond	2010 Equipment Certificates	2011 Equipment Certificates	2013 Equipment Certificates	2015 Equipment Certificates	2017 Equipment Certificates	Total Debt Service
REVENUES							
Taxes	\$ -	\$ -	\$ -	\$ 68,000	\$ 48,739	\$ -	\$ 116,739
Special Assessments	18,126	-	-	-	-	-	18,126
Investment Income	65	-	-	91	49	-	205
TOTAL REVENUES	<u>18,191</u>	<u>-</u>	<u>-</u>	<u>68,091</u>	<u>48,788</u>	<u>-</u>	<u>135,070</u>
EXPENDITURES							
Debt Service:							
Principal	-	-	-	55,000	43,000	-	98,000
Interest and Other Charges	40	-	-	10,493	3,419	2,500	16,452
TOTAL EXPENDITURES	<u>40</u>	<u>-</u>	<u>-</u>	<u>65,493</u>	<u>46,419</u>	<u>2,500</u>	<u>114,452</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	18,151	-	-	2,598	2,369	(2,500)	20,618
OTHER FINANCING SOURCES (USES)							
Operating Transfers In	-	-	-	-	10,177	-	10,177
Operating Transfers Out	(79,318)	(10,177)	(8,312)	-	-	-	(97,807)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(79,318)</u>	<u>(10,177)</u>	<u>(8,312)</u>	<u>-</u>	<u>10,177</u>	<u>-</u>	<u>(87,630)</u>
NET CHANGE IN FUND BALANCE	(61,167)	(10,177)	(8,312)	2,598	12,546	(2,500)	(67,012)
FUND BALANCE - BEGINNING	<u>79,317</u>	<u>10,177</u>	<u>8,312</u>	<u>13,776</u>	<u>2,039</u>	<u>-</u>	<u>113,621</u>
FUND BALANCE - ENDING	<u>\$ 18,150</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 16,374</u>	<u>\$ 14,585</u>	<u>\$ (2,500)</u>	<u>\$ 46,609</u>

**CITY OF SCANDIA, MINNESOTA
 COMBINING BALANCE SHEET
 ALL NONMAJOR GOVERNMENTAL FUNDS
 DECEMBER 31, 2017**

	Economic Development Authority Fund	Park Capital Improvement Fund	Capital Improvement Fund	Total Nonmajor Funds
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
ASSETS				
Cash and Cash Equivalents	\$ 9,745	\$ 16,255	\$ 351,214	\$ 377,214
Advance to Other Fund	<u> -</u>	<u> -</u>	<u>52,388</u>	<u>52,388</u>
TOTAL ASSETS	<u><u>\$ 9,745</u></u>	<u><u>\$ 16,255</u></u>	<u><u>\$ 403,602</u></u>	<u><u>\$ 429,602</u></u>
LIABILITIES				
Advance from Other Funds	\$ -	\$ 26,000	\$ -	\$ 26,000
FUND BALANCES				
Nonspendable	-	-	52,388	52,388
Committed	9,745	-	351,214	360,959
Unassigned	<u> -</u>	<u>(9,745)</u>	<u> -</u>	<u>(9,745)</u>
Total Fund Balances	<u><u>9,745</u></u>	<u><u>(9,745)</u></u>	<u><u>403,602</u></u>	<u><u>403,602</u></u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$ 9,745</u></u>	<u><u>\$ 16,255</u></u>	<u><u>\$ 403,602</u></u>	<u><u>\$ 429,602</u></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, 2017**

	Economic Development Authority Fund	Park Capital Improvement Fund	Capital Improvement Fund	Total Nonmajor Funds
REVENUES				
Taxes	\$ 5,000	\$ -	\$ 30,000	\$ 35,000
Charges for Services	-	3,000	-	3,000
Investment Income	(20)	132	2,412	2,524
Miscellaneous	-	2,450	-	2,450
TOTAL REVENUES	<u>4,980</u>	<u>5,582</u>	<u>32,412</u>	<u>42,974</u>
EXPENDITURES				
Current:				
Building Inspector	-	-	7,306	7,306
Parks and Recreation	-	3,768	-	3,768
Economic Development	326	-	-	326
Capital Outlay	-	-	6,335	6,335
TOTAL EXPENDITURES	<u>326</u>	<u>3,768</u>	<u>13,641</u>	<u>17,735</u>
NET CHANGE IN FUND BALANCES	4,654	1,814	18,771	25,239
FUND BALANCES - BEGINNING	<u>5,091</u>	<u>(11,559)</u>	<u>384,831</u>	<u>378,363</u>
FUND BALANCES - ENDING	<u>\$ 9,745</u>	<u>\$ (9,745)</u>	<u>\$ 403,602</u>	<u>\$ 403,602</u>

**CITY OF SCANDIA, MINNESOTA
SCHEDULE OF INDEBTEDNESS
FOR THE YEAR ENDED DECEMBER 31, 2017
(UNAUDITED)**

	<u>Issue Date</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Initial Authorized Issue</u>	<u>Outstanding Balance 01/01/17</u>	<u>Issued</u>	<u>Paid</u>	<u>Outstanding Balance 12/31/17</u>	<u>Principal Due in 2018</u>
GOVERNMENTAL INDEBTEDNESS									
2013 Certificates of Indebtedness	7/1/2013	0.80-3.10%	7/1/2023	\$ 570,000	\$ 405,000	\$ -	\$ 55,000	\$ 350,000	\$ 55,000
2015 Certificates of Indebtedness	7/1/2015	1.40-2.30%	7/1/2020	215,000	172,000	-	43,000	129,000	43,000
2017 Certificates of Indebtedness	8/1/2017	2.35-2.75%	8/1/2022	160,000	-	160,000	-	160,000	32,000
TOTAL INDEBTEDNESS				<u>\$ 945,000</u>	<u>\$ 577,000</u>	<u>\$ 160,000</u>	<u>\$ 98,000</u>	<u>\$ 639,000</u>	<u>\$ 130,000</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 9, 2018

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, 2017, 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 9, 2018.

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: 2013-001.

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.

St. Cloud, Minnesota

**CITY OF SCANDIA, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2017**

FINANCIAL STATEMENT FINDINGS

Finding 2013-001 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.

**CITY OF SCANDIA, MINNESOTA
CORRECTIVE ACTION PLANS
FOR THE YEAR ENDED DECEMBER 31, 2017**

FINANCIAL STATEMENT FINDINGS

Finding 2013-001 Limited Segregation of Duties

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
The Corrective Action Plan will be reviewed on an ongoing basis with no anticipated completion date.
5. Plan to Monitor Completion
The City Council will be monitoring the Corrective Action Plan.

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

April 9, 2018

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, 2017, and the related notes to the financial statements, and have issued our report thereon dated April 9, 2018.

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.
St. Cloud, Minnesota