

CITY OF SCANDIA, MINNESOTA
AUDITED FINANCIAL STATEMENTS
DECEMBER 31, 2018

SCHLENNER WENNER & CO.
Certified Public Accountants
& Business Consultants

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**INTRODUCTORY
SECTION**

**CITY OF SCANDIA, MINNESOTA
CITY COUNCIL AND OFFICIALS
FOR THE YEAR ENDED DECEMBER 31, 2018**

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 4, 2019

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, 2018, 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, 2018, 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 Pension 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 4, 2019 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 4, 2019, 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, 2018**

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, 2018. Please read it in conjunction with the independent auditor's report on page two and the City's financial statements, which begin on page thirteen.

FINANCIAL HIGHLIGHTS

- The City's net position increased \$627,967 compared to the prior year, primarily due to building permit revenues exceeding budgeted amounts by \$167,111 and public works expenditures coming in under budget by \$213,361.
- The City's General Fund generated more revenue than budgeted of \$215,696. Expenditures were less than budgeted by \$234,491, including transfers to other funds which did not exceed budgeted amounts.
- The unassigned fund balance in the General Fund of \$1,629,410 is 75% of the 2018 General Fund budgeted expenditures, including budgeted transfers to other funds.
- In the City's Sewer utility funds, revenues increased \$2,730 (or 2.58 percent), while operating expenses decreased \$3,345 (or 2.81 percent). The City's utility funds ended 2018 with a net loss of \$7,335, with the cash position increasing \$24,572, due to minimal capital improvements during 2018.
- Capital expenditures totaling \$5,055,115 were 74% of total Governmental Fund expenditures in 2018. Expenditures on the 2018 Road Improvement Project totaled \$4,672,273, of which \$3,835,000 was financed through the issuance of bonds.

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 thirteen and fourteen) 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 fifteen. 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, 2018**

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 fifteen 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, 2018**

THE CITY AS A WHOLE

The City's combined net position increased \$627,967 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	
	2018	2017	2018	2017	2018	2017
Assets						
Current and Other Assets	\$ 4,568,829	\$ 4,375,143	\$ 117,716	\$ 86,231	\$ 4,686,545	\$ 4,461,374
Noncurrent Assets	<u>14,543,652</u>	<u>9,989,127</u>	<u>915,419</u>	<u>959,927</u>	<u>15,459,071</u>	<u>10,949,054</u>
Total Assets	19,112,481	14,364,270	1,033,135	1,046,158	20,145,616	15,410,428
Deferred Outflows of Resources	64,496	108,367	5,219	6,969	69,715	115,336
Liabilities						
Current and Other Liabilities	478,346	211,299	2,248	9,110	480,594	220,409
Noncurrent Liabilities	<u>4,733,441</u>	<u>984,789</u>	<u>24,255</u>	<u>25,315</u>	<u>4,757,696</u>	<u>1,010,104</u>
Total Liabilities	5,211,787	1,196,088	26,503	34,425	5,238,290	1,230,513
Deferred Inflows of Resources	<u>161,334</u>	<u>107,995</u>	<u>6,966</u>	<u>6,482</u>	<u>168,300</u>	<u>114,477</u>
Net Position						
Net Investment in						
Capital Assets	10,001,968	9,243,633	915,419	959,927	10,917,387	10,203,560
Restricted	10,762	78,132	-	-	10,762	78,132
Unrestricted	<u>3,791,126</u>	<u>3,846,789</u>	<u>89,466</u>	<u>52,293</u>	<u>3,880,592</u>	<u>3,899,082</u>
Total Net Position	<u>\$13,803,856</u>	<u>\$13,168,554</u>	<u>\$ 1,004,885</u>	<u>\$ 1,012,220</u>	<u>\$14,808,741</u>	<u>\$14,180,774</u>

The net position of the City's governmental activities increased by \$635,302 (or 4.82 percent), largely as a result of building permit revenues in excess of budgeted amounts and expenditures for public works coming in significantly under 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) decreased by \$55,663 (or 1.45 percent) compared to the prior year.

The net position of the City's business-type activities decreased by \$7,335 (or 0.72 percent), while the unrestricted net position increased from \$52,293 to \$89,466 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, 2018**

THE CITY AS A WHOLE (Continued)

**Table 2
Changes in Net Position**

	Governmental Activities		Business-Type Activities		Total Government	
	2018	2017	2018	2017	2018	2017
Program Revenues						
Charges for Services	\$ 383,403	\$ 444,418	\$ 106,865	\$ 103,789	\$ 490,268	\$ 548,207
Grants and Contributions	108,632	49,016	611	1,367	109,243	50,383
Taxes	2,275,014	2,264,177	-	-	2,275,014	2,264,177
Franchise Fees	17,454	13,736	-	-	17,454	13,736
Intergovernmental	74,909	75,193	186	9	75,095	75,202
Investment Income	41,396	25,928	819	586	42,215	26,514
Other	16,606	64,577	-	-	16,606	64,577
Total Revenues	<u>2,917,414</u>	<u>2,937,045</u>	<u>108,481</u>	<u>105,751</u>	<u>3,025,895</u>	<u>3,042,796</u>
Program Expenses						
General Government	543,395	590,400	-	-	543,395	590,400
Public Safety	476,398	386,468	-	-	476,398	386,468
Public Works	965,452	1,058,902	-	-	965,452	1,058,902
Parks and Recreation	130,215	116,445	-	-	130,215	116,445
Economic Development	15,908	326	-	-	15,908	326
Debt Service	150,744	17,583	-	-	150,744	17,583
201 Sewer	-	-	98,411	101,976	98,411	101,976
Uptown Sewer	-	-	17,405	17,185	17,405	17,185
Total Expenses	<u>2,282,112</u>	<u>2,170,124</u>	<u>115,816</u>	<u>119,161</u>	<u>2,397,928</u>	<u>2,289,285</u>
Change in Net Position	<u>\$ 635,302</u>	<u>\$ 766,921</u>	<u>\$ (7,335)</u>	<u>\$ (13,410)</u>	<u>\$ 627,967</u>	<u>\$ 753,511</u>

The City's total revenues decreased by \$16,901 (or 0.56 percent). Operations were comparable to the prior year, but various changes of significance include:

- The decrease in Building permits from 2017 of \$67,701 is reflected in the Charges for Service.
- Grants and Contributions increased from 2017 by \$59,616 due to funding from outside parties received for various capital projects.
- Other revenues decreased from 2017 primarily due to the \$35,800 decrease in the gain from the sale of fixed assets.

The total cost of all programs and services increased by \$108,643 (or 4.75 percent), primarily due to costs related to the purchase of Fire Department equipment, the initial debt service payment on a 2017 plow truck purchase, and cost related to the issues and bonds in 2018.

**CITY OF SCANDIA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2018**

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 decreased \$19,631 (or 0.67 percent), while total expenses increased by \$111,988 (or 5.16 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	
	2018	2017	2018	2017
General Government	\$ 543,395	\$ 590,400	\$ 231,344	\$ 210,247
Public Safety	476,398	386,468	400,400	311,667
Public Works	965,452	1,058,902	932,917	1,045,695
Parks and Recreation	130,215	116,445	58,764	91,172
Economic Development	15,908	326	15,908	326
Debt Service	150,744	17,583	150,744	17,583
Totals	<u>\$ 2,282,112</u>	<u>\$ 2,170,124</u>	<u>\$ 1,790,077</u>	<u>\$ 1,676,690</u>

Business-type Activities

Revenues of the City's business-type activities (see Table 2) increased by \$2,730 (or 2.58 percent). Expenses decreased by \$3,345 (or 2.81 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 fifteen) reported a combined fund balance of \$4,081,363. This is a decrease of \$16,694 (or 0.41 percent) from the prior year. This decrease in fund balance is the net result of a multitude of transactions, but a few of the largest contributing factors unique to the current year's operations are as follows:

- Revenue from building permits issued by the City exceeded budgeted amounts by \$167,111 (139%) and were \$67,700 (24%) less than 2017. The decrease is related to the atypical 2017 activity which included 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, 2018**

THE CITY'S FUNDS (Continued)

Governmental Funds (Continued)

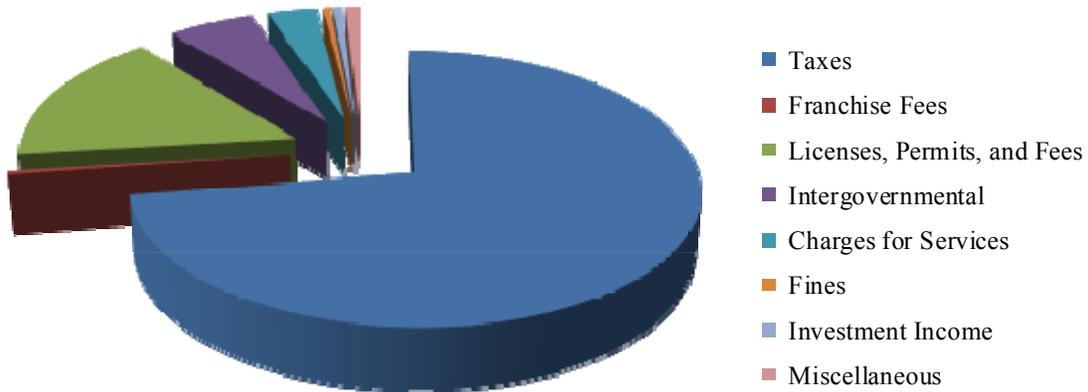
- During 2018, the City received \$33,054 in intergovernmental revenues for capital projects, which is a 100% increase from 2017.
- Expenditures for planning and buildings services exceeded budgeted amounts by \$34,372 (27%), a decrease of \$53,215 (33%) from 2017 primarily attributable to the expenditures on the 2040 Comprehensive Plan in 2017. Other significant changes in expenditures were: *a*) increases over 2017 of \$26,584 in Public Safety due to the contract with the Washington County Sheriff Department and the transition of the fire Chief to a part-time employee, and *b*) a decrease of \$145,540 in Public Works expenditures attributable to the decreased maintenance needs resulting from the 15 miles of roads that were rated as being in poor or very poor condition being included in the 2018 Road Improvement project.
- In 2018, property tax revenues allocated to the Local Road Improvement Fund increased by 164,517 (29%) and those revenues were supplemented by the issuance of \$3,835,000 of bonds which were used to fund the 2018 Road Improvement program. Expenditures in this fund totaled \$4,749,612 which enabled the City to resurface over 15 miles of roads that were previously rated in poor or very poor condition.

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)
	2018	2017	
<i>General</i>	\$ 1,643,215	\$ 1,715,008	\$ (71,793)

The fund balance of the General Fund decreased by \$71,793 as a result of current year operations. In comparison to the prior year, revenues and expenditures decreased approximately 13.21 and 10.06 percent, respectively.

General Fund Revenue



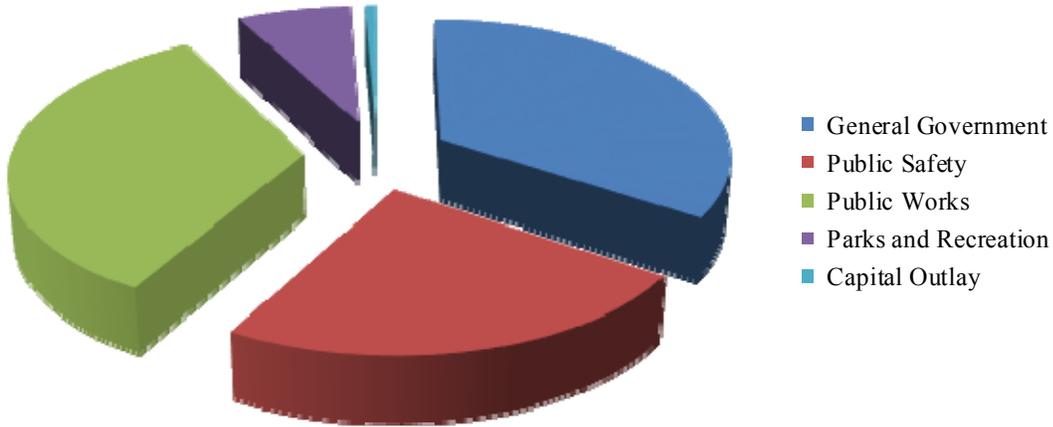
The City receives the majority of its funding in the General Fund in the form of taxes (73 percent) and licenses, permits, and fees (16 percent). Overall, the City's General Fund revenues were comparable to the prior year, with the exception of matters previously discussed.

**CITY OF SCANDIA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2018**

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 (34 percent). Remaining expenditures are used primarily on public safety (24 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 \$215,696. Expenditures were less than those budgeted by \$234,491. See additional detail pertaining to differences between budgeted and actual amounts within the General Fund previously discussed and at the Budgetary Comparison Schedule on page forty-seven.

Major Funds	Fund Balance December 31,		Increase (Decrease)
	2018	2017	
<i>Capital Improvement Fund</i>	\$ 627,796	\$ 403,602	\$ 224,194

At December 31, 2018 the Capital Improvement Fund has a cash balance of \$582,386. The fund balance of the Capital Improvement Fund increased by \$224,194. Significant activity in this fund during 2018 included resurfacing of the tennis courts at the Community Building and the conversion of the interior and exterior lighting at the Community Building to LEDs. Based on the City's fund balance policy, excess fund balance of \$400,000 was transferred into the Capital Improvement Fund from the General Fund, of which \$100,000 was subsequently transferred to the Park Capital Improvement Fund in order to facilitate planning for future park projects.

<i>Local Road Improvement Fund</i>	\$ 1,363,159	\$ 1,455,036	\$ (91,877)
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At December 31, 2018 the Local Road Improvement Fund has a cash balance of \$1,620,706. The fund balance decreased by \$91,877. In 2018, 15.7 miles of the City's 67.8 miles of paved roads were resurfaced. The 2018 road program was funded by property tax revenues of \$725,050, which was a \$164,517 increase over 2017, and by the issuance of \$3,835,000 in bonds.

**CITY OF SCANDIA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2018**

THE CITY'S FUNDS (Continued)

Proprietary Funds

As the City completed the year, its business-type activities (as presented in the statement of net position on page nineteen) reported a combined net position of \$1,004,885. This is a decrease of \$7,335 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)
	2018	2017	
<i>201 Sewer Fund</i>	\$ 839,668	\$ 851,042	\$ (11,374)

The 201 Sewer Fund provides sanitary sewer services to customers in the Anderson-Erickson and Bliss subdivisions. At December 31, 2018 the fund had a cash balance of \$103,812 with an increase in cash of \$19,421 for the year. The increase in cash is attributable to decreased operating expenses. The fund's net position decreased \$11,374 during the current year as a result of operating expenses exceeding revenues from charges for services and other activities.

<i>Uptown Sewer Fund</i>	\$ 165,217	\$ 161,178	\$ 4,039
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The Uptown Sewer Fund provides sanitary sewer services to commercial customers near the Olinda Trail / Oakhill intersection. At December 31, 2018 the fund had a cash balance of \$9,347 with an increase in cash of \$5,151 for the year. The increase in cash is attributable to sewer rates for the Uptown system which were increased by 10% and the basis for the charge which was modified for have a greater portion of the charge based on actual usage rather than a fixed charge to each user. The fund's net position increased \$4,039 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.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2018, the City had \$15,317,304 invested in a broad range of capital assets, including land, buildings, equipment and vehicles, infrastructure, improvements, and sewer systems. This amount represents a net increase of \$4,474,744 (or 41.27 percent) from last year.

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

	Governmental Activities		Business-Type Activities		Totals	
	2018	2017	2018	2017	2018	2017
Land	\$ 487,735	\$ 487,735	\$ -	\$ -	\$ 487,735	\$ 487,735
Construction in Progress	-	88,753	-	-	-	88,753
Buildings	1,247,075	1,264,850	-	-	1,247,075	1,264,850
Equipment and Vehicles	1,336,419	1,230,644	104,789	114,420	1,441,208	1,345,064
Infrastructure	11,278,831	6,758,921	-	-	11,278,831	6,758,921
Other Improvements	51,825	51,730	-	-	51,825	51,730
201 Sewer System	-	-	630,000	660,000	630,000	660,000
Uptown Sewer	-	-	180,630	185,507	180,630	185,507
Totals	\$ 14,401,885	\$ 9,882,633	\$ 915,419	\$ 959,927	\$ 15,317,304	\$ 10,842,560

**CITY OF SCANDIA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2018**

CAPITAL ASSET AND DEBT ADMINISTRATION (Continued)

Capital Assets (Continued)

Significant capital asset acquisitions during 2018 were:

- 2018 Street Project Improvements - \$4,672,273
- Purchase of SCBA Units, Equipment, and Tanks - \$134,558
- Purchase of new Fire Department Vehicle - \$90,470
- Tennis Court Reconstruction - \$52,885

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

Debt

In 2018 the City paid off \$130,000 of the \$639,000 in debt that was outstanding at December 31, 2017. The City issued new debt of \$3,835,000 during 2018 for the 2018 Street Project, bringing the total year-end balance of debt outstanding at December 31, 2018 to \$4,344,000. 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 2019 budget, such as tax rates and fees that will be charged for the business-type activities. The property tax levy for 2019 was not increased over the 2018 and 2017 levies. The levy amount allocated to the General Fund decreased by \$12,038 (1%) compared to 2018. The property tax decrease of \$346,120 for the Local Road Improvement Fund is offset by the increase in the levy for Debt Service of \$349,148, which is primarily attributable to the 2018 series bonds used to fund the road improvement project. The budget for General Fund revenues decreased by \$13,538 and expenditures decreased \$478,310. The largest decreases in budgeted General Fund expenditures were the transfer to the Capital Improvement Fund of \$400,000 and Public Works road maintenance (\$69,500). No changes have been made to the sewer rates for the 201 and Uptown community septic systems.

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, 2018**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS			
Cash and Cash Equivalents	\$ 4,362,964	\$ 113,159	\$ 4,476,123
Property Taxes Receivable	72,321	-	72,321
Assessments Receivable	33,665	10,394	44,059
Accounts Receivable	58,695	17,911	76,606
Interest Receivable	3,631	-	3,631
Prepays	9,461	-	9,461
Inventory	4,344	-	4,344
Internal Balances	23,748	(23,748)	-
Noncurrent Assets:			
Net Pension Asset	141,767	-	141,767
Capital Assets not Being Depreciated	487,735	-	487,735
Capital Assets Being Depreciated (Net)	<u>13,914,150</u>	<u>915,419</u>	<u>14,829,569</u>
TOTAL ASSETS	19,112,481	1,033,135	20,145,616
DEFERRED OUTFLOWS OF RESOURCES			
Pensions	64,496	5,219	69,715
LIABILITIES			
Accounts Payable	385,817	606	386,423
Accrued Payroll, Taxes, and Benefits	27,093	443	27,536
Accrued Interest	64,126	-	64,126
Unearned Revenue	1,310	1,199	2,509
Noncurrent Liabilities:			
Compensated Absences	41,566	-	41,566
Debt Due Within One Year	285,000	-	285,000
Debt Due After One Year	4,114,917	-	4,114,917
Net Pension Liability	<u>291,958</u>	<u>24,255</u>	<u>316,213</u>
TOTAL LIABILITIES	5,211,787	26,503	5,238,290
DEFERRED INFLOWS OF RESOURCES			
Pensions	<u>161,334</u>	<u>6,966</u>	<u>168,300</u>
NET POSITION			
Net Investment in Capital Assets	10,001,968	915,419	10,917,387
Restricted	10,762	-	10,762
Unrestricted	<u>3,791,126</u>	<u>89,466</u>	<u>3,880,592</u>
TOTAL NET POSITION	<u>\$ 13,803,856</u>	<u>\$ 1,004,885</u>	<u>\$ 14,808,741</u>

**CITY OF SCANDIA, MINNESOTA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2018**

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	\$ 543,395	\$ 312,051	\$ -	\$ -	\$ (231,344)	\$ -	\$ (231,344)
Public Safety	476,398	34,771	41,227	-	(400,400)	-	(400,400)
Public Works	965,452	11,447	14,728	6,360	(932,917)	-	(932,917)
Parks and Recreation	130,215	25,134	46,317	-	(58,764)	-	(58,764)
Economic Development	15,908	-	-	-	(15,908)	-	(15,908)
Debt Service	150,744	-	-	-	(150,744)	-	(150,744)
Total Governmental Activities	2,282,112	383,403	102,272	6,360	(1,790,077)	-	(1,790,077)
Business-Type Activities:							
201 Sewer	98,411	85,518	-	611	-	(12,282)	(12,282)
Uptown Sewer	17,405	21,347	-	-	-	3,942	3,942
Total Business-Type Activities	115,816	106,865	-	611	-	(8,340)	(8,340)
TOTALS	\$ 2,397,928	\$ 490,268	\$ 102,272	\$ 6,971	(1,790,077)	(8,340)	(1,798,417)
General Revenues:							
					2,275,014	-	2,275,014
					17,454	-	17,454
					74,909	186	75,095
					41,396	819	42,215
					2,306	-	2,306
					14,300	-	14,300
					2,425,379	1,005	2,426,384
					635,302	(7,335)	627,967
					13,168,554	1,012,220	14,180,774
					\$ 13,803,856	\$ 1,004,885	\$ 14,808,741

**CITY OF SCANDIA, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2018**

	General Fund	Capital Improvement Fund	Local Road Improvement Fund	Total Nonmajor Funds	Total Governmental Funds
ASSETS					
Cash and Cash Equivalents	\$ 1,710,957	\$ 582,386	\$ 1,620,706	\$ 448,915	\$ 4,362,964
Property Taxes Receivable	72,149	-	172	-	72,321
Assessments Receivable	-	-	33,665	-	33,665
Accounts Receivable	21,610	27,867	-	9,218	58,695
Interest Receivable	3,631	-	-	-	3,631
Prepays	9,461	-	-	4,944	14,405
Inventory	4,344	-	-	-	4,344
Due from Other Fund	537	-	-	-	537
Advance to Other Fund	-	37,748	-	-	37,748
TOTAL ASSETS	<u>\$ 1,822,689</u>	<u>\$ 648,001</u>	<u>\$ 1,654,543</u>	<u>\$ 463,077</u>	<u>\$ 4,588,310</u>
LIABILITIES					
Accounts Payable	\$ 106,546	\$ 20,205	\$ 257,719	\$ 1,347	\$ 385,817
Accrued Payroll, Taxes, and Benefits	27,093	-	-	-	27,093
Unearned Revenue	1,310	-	-	-	1,310
Due to Other Funds	-	-	-	537	537
Advance from Other Fund	-	-	-	14,000	14,000
Total Liabilities	134,949	20,205	257,719	15,884	428,757
DEFERRED INFLOWS OF RESOURCES					
Unavailable Revenue:					
Property Taxes	44,525	-	-	-	44,525
Special Assessments	-	-	33,665	-	33,665
Total Deferred Inflows of Resources	44,525	-	33,665	-	78,190
FUND BALANCES					
Nonspendable	13,805	37,748	-	4,944	56,497
Restricted	-	-	-	45,316	45,316
Committed	-	590,048	494,620	115,341	1,200,009
Assigned	-	-	868,539	282,129	1,150,668
Unassigned	1,629,410	-	-	(537)	1,628,873
Total Fund Balances	<u>1,643,215</u>	<u>627,796</u>	<u>1,363,159</u>	<u>447,193</u>	<u>4,081,363</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u>\$ 1,822,689</u>	<u>\$ 648,001</u>	<u>\$ 1,654,543</u>	<u>\$ 463,077</u>	<u>\$ 4,588,310</u>

CITY OF SCANDIA, MINNESOTA
RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2018

Total Fund Balance for Governmental Funds	\$	4,081,363
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets (net of accumulated depreciation of \$6,681,377) used in governmental activities are not financial resources and, therefore, are not reported in the funds.		14,401,885
Other long-term assets are not available to pay for current-period expenditures and, therefore, are reported as unavailable in the funds:		
Property Taxes Receivable	44,525	
Special Assessments Receivable	33,665	78,190
Some expenses reported in the Statement of Activities do not require the use of current financial and, therefore, are not reported as expenditures in the governmental funds:		
Accrued/Prepaid Interest	(69,070)	
Compensated Absences	(41,566)	(110,636)
Long-term liabilities are not due and payable in the current period and, therefore, they are not reported in the governmental funds:		
Unamortized Bond Premium and Discounts	(55,917)	
Debt Due Within One Year	(285,000)	
Debt Due After One Year	(4,059,000)	(4,399,917)
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	141,767	
Net Pension Liability	(291,958)	
Deferred Outflows - Pensions	64,496	
Deferred Inflows - Pensions	(161,334)	(247,029)
TOTAL NET POSITION OF GOVERNMENTAL ACTIVITIES	\$	<u>13,803,856</u>

CITY OF SCANDIA, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018

	General Fund	Capital Improvement Fund	Local Road Improvement Fund	Total Nonmajor Funds	Total Governmental Funds
REVENUES					
Taxes	\$ 1,358,056	\$ -	\$ 725,050	\$ 183,002	\$ 2,266,108
Special Assessments	-	-	-	164	164
Franchise Fees	7,989	-	-	9,465	17,454
Licenses, Permits, and Fees	300,274	-	-	-	300,274
Intergovernmental	105,857	33,054	-	-	138,911
Charges for Services	59,962	-	-	12,000	71,962
Fines	9,517	-	-	-	9,517
Investment Income	12,560	4,837	19,726	4,273	41,396
Miscellaneous	15,411	7,492	-	24,108	47,011
TOTAL REVENUES	<u>1,869,626</u>	<u>45,383</u>	<u>744,776</u>	<u>233,012</u>	<u>2,892,797</u>
EXPENDITURES					
Current:					
General Government	521,457	-	-	4,318	525,775
Public Safety	361,381	-	-	-	361,381
Public Works	517,139	9,350	-	400	526,889
Parks and Recreation	107,916	-	-	6,413	114,329
Economic Development	-	-	-	15,908	15,908
Debt Service:					
Principal	-	-	-	130,000	130,000
Interest and Other Charges	-	-	77,339	11,700	89,039
Capital Outlay	10,026	115,339	4,672,273	257,477	5,055,115
TOTAL EXPENDITURES	<u>1,517,919</u>	<u>124,689</u>	<u>4,749,612</u>	<u>426,216</u>	<u>6,818,436</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	351,707	(79,306)	(4,004,836)	(193,204)	(3,925,639)
OTHER FINANCING SOURCES (USES)					
Bonds Issued	-	-	3,835,000	-	3,835,000
Premium on Issuance of Long-Term Debt	-	-	59,645	-	59,645
Proceeds on Sale of Assets	-	-	-	14,300	14,300
Operating Transfers In	-	403,500	18,314	120,000	541,814
Operating Transfers Out	(423,500)	(100,000)	-	(18,314)	(541,814)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(423,500)</u>	<u>303,500</u>	<u>3,912,959</u>	<u>115,986</u>	<u>3,908,945</u>
NET CHANGE IN FUND BALANCES	(71,793)	224,194	(91,877)	(77,218)	(16,694)
FUND BALANCES - BEGINNING	<u>1,715,008</u>	<u>403,602</u>	<u>1,455,036</u>	<u>524,411</u>	<u>4,098,057</u>
FUND BALANCES - ENDING	<u>\$ 1,643,215</u>	<u>\$ 627,796</u>	<u>\$ 1,363,159</u>	<u>\$ 447,193</u>	<u>\$ 4,081,363</u>

**CITY OF SCANDIA, MINNESOTA
RECONCILIATION OF CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2018**

Net Change in Fund Balances - Total Governmental Funds	\$	(16,694)
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 Capitalized	\$ 5,021,705	
Depreciation Expense	<u>(502,453)</u>	4,519,252
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:		
Change in Long-Term Receivables		8,766
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:		
Bonds Issued	(3,835,000)	
Premium on Bond Issuance	(59,645)	
Equipment Certificates Principal Payments	<u>130,000</u>	(3,764,645)
Net change in accrued interest on bonds and equipment certificates are not reported as expenses in the funds.		(65,433)
The effects of bond premiums and discounts are reported in the governmental fund financial statements upon issuance of the debt. These amounts are deferred and amortized in the Statement of Activities:		3,728
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		(8,811)
Net pension asset/liability balances do not represent the impending use of current resources. Therefore, the change in the asset/liability and the related deferrals is not reported in the governmental funds.		<u>(40,861)</u>
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	\$	<u><u>635,302</u></u>

**CITY OF SCANDIA, MINNESOTA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2018**

	<u>201 Sewer Fund</u>	<u>Uptown Sewer Fund</u>	<u>Totals</u>
ASSETS			
Current Assets			
Cash and Cash Equivalents	\$ 103,812	\$ 9,347	\$ 113,159
Accounts Receivable	12,150	5,761	17,911
Assessments Receivable	<u>10,394</u>	<u>-</u>	<u>10,394</u>
Total Current Assets	126,356	15,108	141,464
Noncurrent Assets			
Capital Assets Being Depreciated (Net)	<u>734,788</u>	<u>180,631</u>	<u>915,419</u>
TOTAL ASSETS	861,144	195,739	1,056,883
DEFERRED OUTFLOWS OF RESOURCES			
Pensions	3,895	1,324	5,219
LIABILITIES			
Current Liabilities			
Accounts Payable	606	-	606
Accrued Salaries	351	92	443
Unearned Revenue	<u>1,199</u>	<u>-</u>	<u>1,199</u>
Total Current Liabilities	2,156	92	2,248
Noncurrent Liabilities			
Net Pension Liability	18,035	6,220	24,255
Advance from Other Fund	<u>-</u>	<u>23,748</u>	<u>23,748</u>
Total Noncurrent Liabilities	<u>18,035</u>	<u>29,968</u>	<u>48,003</u>
TOTAL LIABILITIES	20,191	30,060	50,251
DEFERRED INFLOWS OF RESOURCES			
Pensions	<u>5,180</u>	<u>1,786</u>	<u>6,966</u>
NET POSITION			
Net Investment in Capital Assets	734,788	180,631	915,419
Unrestricted	<u>104,880</u>	<u>(15,414)</u>	<u>89,466</u>
TOTAL NET POSITION	<u>\$ 839,668</u>	<u>\$ 165,217</u>	<u>\$ 1,004,885</u>

CITY OF SCANDIA, MINNESOTA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>201 Sewer Fund</u>	<u>Uptown Sewer Fund</u>	<u>Totals</u>
OPERATING REVENUES			
Charges for Services	\$ 85,518	\$ 21,347	\$ 106,865
OPERATING EXPENSES			
Wages and Benefits	23,592	7,850	31,442
Materials and Supplies	1,742	1,369	3,111
Professional Services	2,377	104	2,481
Repairs and Maintenance	23,151	801	23,952
Other Services and Charges	7,918	2,404	10,322
Depreciation	<u>39,631</u>	<u>4,877</u>	<u>44,508</u>
TOTAL OPERATING EXPENSES	<u>98,411</u>	<u>17,405</u>	<u>115,816</u>
NET OPERATING INCOME (LOSS)	(12,893)	3,942	(8,951)
NONOPERATING INCOME			
Special Assessments	611	-	611
Intergovernmental	138	48	186
Investment Income	<u>770</u>	<u>49</u>	<u>819</u>
TOTAL NONOPERATING INCOME	<u>1,519</u>	<u>97</u>	<u>1,616</u>
CHANGE IN NET POSITION	(11,374)	4,039	(7,335)
NET POSITION - BEGINNING OF YEAR	<u>851,042</u>	<u>161,178</u>	<u>1,012,220</u>
NET POSITION - END OF YEAR	<u>\$ 839,668</u>	<u>\$ 165,217</u>	<u>\$ 1,004,885</u>

**CITY OF SCANDIA, MINNESOTA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018**

	<u>201 Sewer Fund</u>	<u>Uptown Sewer Fund</u>	<u>Totals</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Received from Customers	\$ 83,351	\$ 19,841	\$ 103,192
Cash Paid to Suppliers	(42,680)	(4,576)	(47,256)
Cash Paid to Employees	<u>(22,770)</u>	<u>(7,570)</u>	<u>(30,340)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	17,901	7,695	25,596
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Intergovernmental Cash Receipts	139	47	186
Special Assessments	611	-	611
Net Advances to/from Other Funds	<u>-</u>	<u>(2,640)</u>	<u>(2,640)</u>
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	750	(2,593)	(1,843)
CASH FLOW FROM INVESTING ACTIVITIES			
Investment Income	<u>770</u>	<u>49</u>	<u>819</u>
Net Increase in Cash and Cash Equivalents	19,421	5,151	24,572
Cash and Cash Equivalents - Beginning of Year	<u>84,391</u>	<u>4,196</u>	<u>88,587</u>
Cash and Cash Equivalents - End of Year	<u>\$ 103,812</u>	<u>\$ 9,347</u>	<u>\$ 113,159</u>
RECONCILIATION OF NET OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Net Operating Income (Loss)	\$ (12,893)	\$ 3,942	\$ (8,951)
Adjustments to Reconcile Net Operating Income (Loss) to Net Cash Provided by Operating Activities			
Depreciation Expense	39,631	4,877	44,508
Change in Assets, Liabilities, and Deferred Outflows/Inflows			
Accounts Receivable	(1,581)	(1,506)	(3,087)
Assessments Receivable	(1,785)	-	(1,785)
Prepays	349	250	599
Accounts Payable	(7,840)	(148)	(7,988)
Accrued Wages	(16)	(57)	(73)
Unearned Revenue	1,199	-	1,199
Deferred Outflows of Resources - Pension	1,300	450	1,750
Net Pension Liability	(816)	(244)	(1,060)
Deferred Inflows of Resources - Pension	<u>353</u>	<u>131</u>	<u>484</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 17,901</u>	<u>\$ 7,695</u>	<u>\$ 25,596</u>

**CITY OF SCANDIA, MINNESOTA
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUND
DECEMBER 31, 2018**

	<u>Agency Fund</u>
ASSETS	
Cash and Cash Equivalents	\$ <u>29,525</u>
LIABILITIES	
Accounts Payable	\$ <u>29,525</u>

CITY OF SCANDIA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018

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, 2018

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

The *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 *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 *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).

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.

**CITY OF SCANDIA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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, 2018

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 and proprietary fund Statement of Cash Flows, “cash and cash equivalents” includes all demand, savings, and money market accounts for the City.

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, 2018**

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 acquisition 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 and 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 that PERA's fiscal year end 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, 2018**

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, 2018

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, 2018 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 expenditures.

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 above.

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, 2018**

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, 2018**

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.

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

**CITY OF SCANDIA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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

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

Deposits (Continued)

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

At December 31, 2018, 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, 2018, the City does not hold any investments.

CITY OF SCANDIA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018

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

3.B. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2018 is as follows:

	Balance at 01/01/18	Additions	Disposals	Transfers	Balance at 12/31/18
Governmental Activities:					
Capital Assets not Being Depreciated					
Land	\$ 487,735	\$ -	\$ -	\$ -	\$ 487,735
Construction In Progress	88,753	4,672,273	-	(4,761,026)	-
Total Capital Assets not Being Depreciated	576,488	4,672,273	-	(4,761,026)	487,735
Capital Assets Being Depreciated					
Buildings	2,272,131	33,285	-		2,305,416
Equipment	996,213	140,658	(43,245)	-	1,093,626
Vehicles	1,401,792	116,819	(14,084)	-	1,504,527
Infrastructure	10,709,614	52,885	-	4,761,026	15,523,525
Other Improvements	162,648	5,785	-	-	168,433
Total Capital Assets Being Depreciated	15,542,398	349,432	(57,329)	4,761,026	20,595,527
Less: Accumulated Depreciation					
Buildings	(1,007,281)	(51,060)	-	-	(1,058,341)
Equipment	(560,523)	(75,733)	43,245	-	(593,011)
Vehicles	(606,838)	(75,969)	14,084	-	(668,723)
Infrastructure	(3,950,693)	(294,001)	-	-	(4,244,694)
Other Improvements	(110,918)	(5,690)	-	-	(116,608)
Total Accumulated Depreciation	(6,236,253)	(502,453)	57,329	-	(6,681,377)
Total Capital Assets Being Depreciated, Net	9,306,145	(153,021)	-	4,761,026	13,914,150
Capital Assets, Net	<u>\$ 9,882,633</u>	<u>\$ 4,519,252</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,401,885</u>

Depreciation is charged to governmental activities as follows:

General Government	\$ 15,196
Public Safety	68,684
Public Works	405,460
Parks and Recreation	<u>13,113</u>
Total Depreciation Expense	<u>\$ 502,453</u>

CITY OF SCANDIA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018

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

3.B. CAPITAL ASSETS (Continued)

	Balance at 01/01/18	Additions	Disposals	Balance at 12/31/18
Business-Type Activities:				
Capital Assets Being Depreciated				
Sewer Plant	\$ 1,500,000	\$ -	\$ -	\$ 1,500,000
Equipment	134,195	-	-	134,195
Uptown Sewer	243,827	-	-	243,827
Total Capital Assets Being Depreciated	1,878,022	-	-	1,878,022
Less: Accumulated Depreciation				
Sewer Plant	(840,000)	(30,000)	-	(870,000)
Equipment	(19,775)	(9,631)	-	(29,406)
Uptown Sewer	(58,320)	(4,877)	-	(63,197)
Total Accumulated Depreciation	(918,095)	(44,508)	-	(962,603)
Business-Type Activities	\$ 959,927	\$ (44,508)	\$ -	\$ 915,419

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.

Debt Detail

As of December 31, 2018, 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	\$ 295,000
2015 Equipment Certificate	7/15	\$43,000	1.40-2.30%	7/20	215,000	86,000
2017 Equipment Certificate	8/17	\$32,000	2.35-2.75%	8/22	160,000	128,000
Total Governmental Activities Equipment Certificates Payable						509,000
Equipment Certificates Due Within One Year						130,000
Equipment Certificates Due After One Year						\$ 379,000

**CITY OF SCANDIA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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

3.C. NONCURRENT LIABILITIES (Continued)

Debt Detail (Continued)

Governmental Activities (Continued)

General Obligation Bonds						
Type of Debt	Issue Date	Annual Payment	Interest Rate(s)	Maturity Date	Original Amount	Remaining Amount
G.O. Bonds, Series 2018A	5/18	\$155,000 - \$315,000	3.00-3.13%	12/33	\$ 3,835,000	\$ 3,835,000
		Bonds Due Within One Year				<u>155,000</u>
						Bonds Due After One Year
						<u>\$ 3,680,000</u>

Changes in Noncurrent Liabilities

The following is a summary of changes in noncurrent liabilities for the year ended December 31, 2018:

Type of Debt	Balance 1/1/18	Additions	Deductions	Balance 12/31/18	Amounts Due Within One Year
<i>Governmental Activities:</i>					
Bonds	\$ -	\$ 3,835,000	\$ -	\$ 3,835,000	\$ 155,000
Unamortized Bond Premium	-	59,645	(3,728)	55,917	-
Equipment Certificates	639,000	-	(130,000)	509,000	130,000
Compensated Absences	<u>32,755</u>	<u>35,330</u>	<u>(26,519)</u>	<u>41,566</u>	<u>-</u>
Total	<u>\$ 671,755</u>	<u>\$ 3,929,975</u>	<u>\$ (160,247)</u>	<u>\$ 4,441,483</u>	<u>\$ 285,000</u>

Interest and other fiscal charges total \$150,744 in the Statement of Activities (included in Debt Service line). Interest and other fiscal charges total \$89,039 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 is funded through the funds to which the respective employees' wages are allocated.

**CITY OF SCANDIA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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

3.C. NONCURRENT LIABILITIES (Continued)

Annual Debt Service Requirements

At December 31, 2018, the estimated annual debt service requirements to maturity, including principal and interest, are as follows:

Years Ending December 31,	Governmental Activities		
	Principal	Interest	Total
2019	\$ 285,000	\$ 186,376	\$ 471,376
2020	350,000	120,768	470,768
2021	312,000	110,953	422,953
2022	322,000	101,795	423,795
2023	295,000	92,155	387,155
2024-2028	1,290,000	345,725	1,635,725
2029-2033	1,490,000	140,143	1,630,143
Totals	<u>\$ 4,344,000</u>	<u>\$ 1,097,915</u>	<u>\$ 5,441,915</u>

3.D. INTERFUND TRANSACTIONS AND BALANCES

Operating transfers consist of the following for the year ended December 31, 2018:

Major Funds	Transfers Out	Transfers In			
		Major Funds		Nonmajor Funds	
		Capital Improvement	Local Road Improvement	Governmental	Total
General	\$ 423,500	\$ 403,500	\$ -	\$ 20,000	\$ 423,500
Capital Improvement	100,000	-	-	100,000	100,000
	523,500	403,500	-	120,000	523,500
<u>Nonmajor Funds</u>					
Governmental	18,314	-	18,314	-	18,314
Total	<u>\$ 541,814</u>	<u>\$ 403,500</u>	<u>\$ 18,314</u>	<u>\$ 120,000</u>	<u>\$ 541,814</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, 2018**

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			
Due To Fund	Due From Fund	Amount	Reason
Capital Improvement	Uptown Sewer	\$ 23,748	Sewer improvements
Capital Improvement	Park Capital Improvement	14,000	Finance parking lot
Governmental Funds Advances To/From		37,748	
Short-Term Balances			
Due To Fund	Due From Fund		
General Fund	Debt Service	537	Eliminate sub-fund negative cash
Total Interfund Balances		\$ 38,285	
Governmental Fund Elimination		(14,537)	
Government-wide Internal Balances		\$ 23,748	

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. The Debt Service Fund monies owed to the General fund will be repaid as cash flows become available.

3.E. FUND EQUITY

At December 31, 2018, governmental fund equity consists of the following:

General Fund	
Nonspendable - Prepays and Inventory	\$ 13,805
Unassigned	1,629,410
Total General Fund Balance	\$ 1,643,215
Capital Improvements Fund	
Nonspendable - Advance to Other Fund	\$ 37,748
Committed for Capital Improvements	590,048
Total Capital Improvement Fund	\$ 627,796
Local Road Improvement Fund	
Committed for Local Road Improvements	\$ 494,620
Assigned for Local Road Improvement	868,539
Total Local Road Improvement Fund	\$ 1,363,159

**CITY OF SCANDIA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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

3.E. FUND EQUITY (Continued)

Nonmajor Governmental Funds	
Nonspendable - Prepaids	\$ 4,944
Restricted for Debt Service	34,554
Restricted for Park Improvements	10,587
Restricted for Trail Development	175
Committed for Economic Development	21,314
Committed for Park Improvements	94,027
Assigned for Equipment Replacement	276,977
Assigned for Cable TV	5,152
Unassigned	<u>(537)</u>
Total Nonmajor Governmental Funds Balance	<u>\$ 447,193</u>

NOTE 4 OTHER NOTES

4.A. 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

All full-time and certain part-time employees of the City are covered by the General Employees Plan. General Employees Plan members belong to the Coordinated Plan. Coordinated Plan members are covered by Social Security.

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. Vested terminated employees who are entitled to benefits, but are not receiving them yet, are bound by the provisions in effect at the time they last terminated their public service.

General Employees Plan Benefits

General Employees Plan 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 Plan members. Members hired prior to July 1, 1989 receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for Coordinated members is 1.2 percent of average salary for each of the first 10 years of service and 1.7 percent of average salary for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7 percent of average salary for all years 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.

**CITY OF SCANDIA, MINNESOTA
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2018**

NOTE 4 OTHER NOTES (Continued)

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

Benefits Provided (Continued)

General Employees Plan Benefits (Continued)

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. If the General Employees Plan is at least 90 percent funded for two consecutive years, benefit recipients are given a 2.5 percent increase. If the plan has not exceeded 90 percent funded, or have fallen below 80 percent, benefit recipients are given a one percent increase. A benefit recipient who has been receiving a benefit for at least 12 full months as of June 30, will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of June 30, will receive a pro rata increase.

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

Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in fiscal year 2018 and the City was required to contribute 7.50 percent for Coordinated Plan members. The City's contributions to the General Employees Fund for the year ended December 31, 2018 were \$27,150. 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, 2018, the City reported a liability of \$316,213 for its proportionate share of the General Employees Fund's net pension liability. The City of Scandia's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million to the fund in 2018. 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 \$10,395. The net pension liability was measured as of June 30, 2018 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, 2017, through June 30, 2018, relative to the total employer contributions received from all of PERA's participating employers.

At June 30, 2018, the City's proportionate share was 0.0057 percent which was an increase of 0.0004 percent from its proportion measured as of June 30, 2017.

City's proportionate share of the net pension liability:	\$316,213
State of Minnesota's proportionate share of the net pension liability associated with the City	<u>10,395</u>
Total	<u>\$326,608</u>

**CITY OF SCANDIA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 4 OTHER NOTES (Continued)

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

Pension Costs (Continued)

General Employees Fund Pension Costs (Continued)

For the year ended December 31, 2018, the City recognized pension expense of \$24,722 for its proportionate share of the General Employees Plan's pension expense. In addition, the City recognized an additional \$2,424 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the General Employees Fund.

At December 31, 2018, the City reported its proportionate share of the General Employees Plan'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	\$ 7,809	\$ 9,223
Changes in actuarial assumptions	30,206	33,823
Net collective difference between projected and actual investment earnings	-	29,060
Changes in proportion	19,152	18,715
Contributions paid to PERA subsequent to the measurement date	12,548	-
 Total Deferred Outflows/Inflows	 \$ 69,715	 \$ 90,821

A total of \$12,548 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, 2019. 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
2019	\$ 8,317
2020	\$ (17,182)
2021	\$ (18,190)
2022	\$ (6,599)

Actuarial Assumptions

The total pension liability in the June 30, 2018, actuarial valuation was determined using an individual entry-age normal actuarial cost method and the following actuarial assumptions:

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

**CITY OF SCANDIA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 4 OTHER NOTES (Continued)

4.A. 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 for all plans were based on RP 2014 tables for males or females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases after retirement for retirees are assumed to be 1.25 percent per year for the General Employees Plan.

Actuarial assumptions used in the June 30, 2018 valuation were based on the results of actuarial experience studies. The most recent six-year experience study in the General Employees Plan was completed in 2015. Economic assumptions were updated in 2017 based on a review of inflation and investment return assumptions.

The following changes in actuarial assumptions occurred in 2018:

General Employees Fund

- The morality projection scale was changed from MP-2015 to MP-2017.
- The assumed benefit increase was changed from 1.00 percent per year through 2044 and 2.50 percent per year thereafter to 1.25 percent per year.

The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness on a regular basis of the long-term expected rate of return 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	36%	5.10%
International Stocks	17%	5.30%
Bonds (Fixed Income)	20%	0.75%
Alternative Assets (Private Markets)	25%	5.90%
Cash	2%	0.00%
Total	<u>100%</u>	

Discount Rate

The discount rate used to measure the total pension liability in 2018 was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net positions of the General Employees Fund was projected to be available to make all projected future benefit payments of current plan 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, 2018**

NOTE 4 OTHER NOTES (Continued)

4.A. 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 one percentage point lower or one 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	\$ 513,886	\$ 316,213	\$ 153,039

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. DEFINED CONTRIBUTION PENSION PLAN - STATEWIDE

The council members of the City of Scandia are covered by the Defined Contribution Plan, a multiple-employer deferred compensation plan administered by PERA. The Defined Contribution Plan 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 five percent of salary, which is matched by the elected official's employer. For ambulance service personnel, employer contributions are determined by the employer, and for salaried employees contributions must be a fixed percentage of salary. Employer contributions for volunteer personnel may be a unit value for each call or period of alert duty. Employees who are paid for their services may elect to make member contributions in an amount not to exceed the employer share. 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 two percent of employer contributions and twenty-five hundredths of one percent (0.25 percent) of the assets in each member's account annually.

Total contributions made by the City during fiscal year 2018 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, 2018, the plan covered 26 active firefighters and 4 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, 2018**

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 percent through 20 years at 100 percent.

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 \$32,637 in fire state aid to the plan for the year ended December 31, 2017. 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, 2018 were \$0.

Pension Costs

At December 31, 2018, the City of Scandia reported a net pension asset of \$141,767 for the Volunteer Firefighter Plan. The net pension asset was measured as of December 31, 2017. 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. The following table presents the changes in net pension asset during the year.

	<u>Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net Pension Liability (Asset)</u>
Beginning Balance 12/31/16	\$ 617,019	\$ 723,513	\$ (106,494)
Service Cost	28,912	-	28,912
Interest on Pension Liability	34,163	-	34,163
Actuarial Experience (Gains)/Losses	(54,911)	-	(54,911)
Projected Investment Earnings	-	43,412	(43,412)
Changes in Benefit Level	73,244	-	73,244
Contributions (State)	-	34,637	(34,637)
Asset (Gain)/Loss	-	39,602	(39,602)
Benefit Payouts	(153,100)	(153,100)	-
PERA Administrative Fee	-	(970)	970
Net Changes	<u>(71,692)</u>	<u>(36,419)</u>	<u>(35,273)</u>
Balance End of Year 12/31/17	<u>\$ 545,327</u>	<u>\$ 687,094</u>	<u>\$ (141,767)</u>

For the year ended December 31, 2018, the City of Scandia recognized pension expense of \$36,787.

**CITY OF SCANDIA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 4 OTHER NOTES (Continued)

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

Pension Costs (Continued)

At December 31, 2018, the City of Scandia reported deferred inflows of resources and deferred outflows of resources related to the pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 61,395
Net collective difference between projected and actual investment earnings	-	16,084
Total Deferred Outflows/Inflows	\$ -	\$ 77,479

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
2019	\$ (21,739)
2020	\$ (15,484)
2021	\$ (21,354)
2022	\$ (18,902)

Actuarial Assumptions

The total pension liability at December 31, 2017, 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 percent
- Inflation rate of 3.00 percent

There were no changes in actuarial assumptions in 2017.

Discount Rate

The discount rate used to measure the total pension liability was six percent. The projection of cash flows used to determine the discount rate assumed that contributions to the Volunteer Firefighter Fund 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, 2018**

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 Fund, 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 one percent lower or one percent higher than the current discount rate:

	<u>1% Decrease in Discount Rate (5.0%)</u>	<u>Discount Rate (6.0%)</u>	<u>1% Increase in Discount Rate (7.0%)</u>
Net Pension Asset	\$ 128,838	\$ 141,767	\$ 154,172

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 Volunteer Firefighter Retirement Plan 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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Stocks	35%	5.10%
International Stocks	15%	5.30%
Bonds	45%	0.75%
Unallocated Cash	5%	0.00%

The six percent 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 from a number of investment management and consulting organizations. 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, 2018**

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 2017 for Volunteer Firefighter Fund.

Pension Plan Fiduciary Net Position

Detailed information about the Volunteer Firefighter Plan's fiduciary net position as of December 31, 2017, 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 2019 contract budget, expenditures anticipated under this agreement for 2019 are estimated at \$135,636.

4.F. SUBSEQUENT EVENTS

Subsequent to year-end and prior to issuance of these financial statements, the City approved the sale of land for approximately \$140,000.

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF SCANDIA, MINNESOTA
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2018**

	<u>Budget Amounts- Original and Final</u>	<u>Actual Amounts Budgetary Basis</u>	<u>Variance with Final Budget Over (Under)</u>
RESOURCES (INFLOWS):			
Taxes	\$ 1,368,320	\$ 1,358,056	\$ (10,264)
Franchise Fees	6,000	7,989	1,989
Licenses, Permits, and Fees	132,600	300,274	167,674
Intergovernmental	53,700	105,857	52,157
Charges for Services	60,900	59,962	(938)
Fines	12,000	9,517	(2,483)
Investment Income	5,000	12,560	7,560
Miscellaneous	15,410	15,411	1
AMOUNTS AVAILABLE	<u>1,653,930</u>	<u>1,869,626</u>	<u>215,696</u>
CHARGES TO APPROPRIATIONS (OUTFLOWS):			
General Government:			
Governing Board	19,500	18,904	(596)
Administration and Finance	183,700	179,419	(4,281)
Other General Government	290,800	323,134	32,334
Public Safety:			
Police	127,200	136,077	8,877
Fire	274,610	225,304	(49,306)
Public Works	730,500	517,139	(213,361)
Parks and Recreation	120,100	107,916	(12,184)
Capital Outlay	6,000	10,026	4,026
Transfers Out	423,500	423,500	-
TOTAL CHARGES	<u>2,175,910</u>	<u>1,941,419</u>	<u>(234,491)</u>
NET CHANGE IN FUND BALANCE	<u>\$ (521,980)</u>	<u>(71,793)</u>	<u>\$ 450,187</u>
FUND BALANCE - BEGINNING		<u>1,715,008</u>	
FUND BALANCE - ENDING		<u>\$ 1,643,215</u>	

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

For the Measurement Year Ended June 30	City's Proportion 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 and the State's Proportionate Share of the Net Pension Liability Associated with the City (a+b)	City's Covered Payroll (c)	City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll ((a+b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
General Employees Retirement Pension Plan							
2018	0.0057%	\$ 316,213	\$ 10,395	\$ 326,608	\$ 380,371	85.9%	79.5%
2017	0.0053%	\$ 338,349	\$ 4,251	\$ 342,600	\$ 338,175	101.3%	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%

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

CITY OF SCANDIA
SCHEDULE OF CITY PENSION 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 Payroll	Contributions as a Percentage of Covered Payroll
<i>General Employees Retirement Fund Pension Plan</i>					
2018	\$ 27,150	\$ 27,150	\$ -	\$ 362,002	7.5%
2017	\$ 27,172	\$ 27,172	\$ -	\$ 362,292	7.5%
2016	\$ 24,941	\$ 24,941	\$ -	\$ 334,592	7.5%
2015	\$ 25,468	\$ 25,468	\$ -	\$ 348,155	7.3%
<i>Statewide Volunteer Firefighter Pension Plan</i>					
2018	\$ -	\$ -	\$ -	N/A	N/A
2017	\$ -	\$ -	\$ -	N/A	N/A
2016	\$ -	\$ -	\$ -	N/A	N/A
2015	\$ -	\$ -	\$ -	N/A	N/A

Note: The schedule is provided prospectively beginning with the City's fiscal year ended December 31, 2015 and is 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)

	2017	2016	2015	2014
Changes in Total Pension Liability (TPL)				
Balance at January 1st	\$ 617,019	\$ 654,741	\$ 636,294	\$ 629,967
Service Cost	28,912	24,777	23,343	22,874
Interest on the TPL	34,163	38,089	38,665	38,350
Actuarial Experience (Gains)/Losses	(54,911)	(11,188)	(13,108)	(27,553)
Changes in Benefit Level	73,244	-	-	-
Benefit Payments	(153,100)	(89,400)	(30,453)	(27,344)
Balance at December 31st	<u>\$ 545,327</u>	<u>\$ 617,019</u>	<u>\$ 654,741</u>	<u>\$ 636,294</u>
Plan Fiduciary Net Position (PFNP)				
Balance at January 1st	\$ 723,513	\$ 735,277	\$ 730,400	\$ 658,422
Fire State Aid	26,278	26,738	27,129	24,368
Fire Supplemental Aid	6,359	6,486	6,638	5,896
Supplemental Benefit Reimbursement	2,000	-	1,000	2,955
Municipal Contributions	-	-	-	18,259
Adjustment to Initial Asset Transfer	-	-	-	5,368
Net Investment Income	83,014	45,186	1,367	43,226
Total Additions	<u>117,651</u>	<u>78,410</u>	<u>36,134</u>	<u>100,072</u>
Benefit Payments	(153,100)	(89,400)	(30,453)	(27,344)
Administrative Expenses	(970)	(774)	(804)	(750)
Total Reductions	<u>(154,070)</u>	<u>(90,174)</u>	<u>(31,257)</u>	<u>(28,094)</u>
Balance at December 31st	<u>\$ 687,094</u>	<u>\$ 723,513</u>	<u>\$ 735,277</u>	<u>\$ 730,400</u>
Net Pension Liability (Asset) - December 31st	<u>\$ (141,767)</u>	<u>\$ (106,494)</u>	<u>\$ (80,536)</u>	<u>\$ (94,106)</u>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	126%	117%	112%	115%

Note: The schedule is provided prospectively beginning with the City's fiscal year ended December 31, 2015 (December 31, 2014 measurement date) and is intended to show a ten year trend. Additional years will be reported as they become available.

CITY OF SCANDIA, MINNESOTA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2018

NOTE 1 PUBLIC EMPLOYEES RETIREMENT PLAN – GENERAL EMPLOYEES FUND

2018 Changes

Changes in Actuarial Assumptions

- The morality projection scale was changed from MP-2015 to MP-2017.
- The assumed benefit increase was changed from 1.00 percent per year through 2044 and 2.50 percent per year thereafter to 1.25 percent per year.

2017 Changes

Changes in Plan Provisions

- The State’s special funding contribution increased from \$6 million to \$16 million.

Changes in Actuarial Assumptions

- The Combined Service Annuity (CSA) loads were changed from 0.80 percent for active members and 60 percent for vested and non-vested deferred members. The revised CSA loads are now 0.00 percent for active member liability, 15.00 percent for vested deferred member liability and 3.00 percent for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year for all years to 1.00 percent per year through 2044 and 2.50 percent per year thereafter.

2016 Changes

Changes in Actuarial Assumptions

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2035 and 2.50 percent per year thereafter to 1.00 percent per year for all years.
- The assumed investment return was changed from 7.90 percent to 7.50 percent. The single discount rate was changed from 7.90 percent to 7.50 percent.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, the inflation were decreased by 0.25 percent to 3.25 percent for payroll growth and 2.50 percent for inflation.

2015 Changes

Changes in Plan Provisions

- On January 1, 2015, the Minneapolis Employees Retirement Fund was merged into the General Employees Fund, which increased the total pension liability by \$1.1 billion and increased the fiduciary plan net position by \$892 million. Upon consolidation, state and employer contributions were revised; the State’s contribution of \$6 million, which meets the special funding situation definition, is due September 2015.

Changes in Actuarial Assumptions

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2030 and 2.50 percent per year thereafter to 1.00 percent per year through 2035 and 2.50 percent per year thereafter.

**CITY OF SCANDIA, MINNESOTA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2018**

NOTE 2 STATEWIDE VOLUNTEER FIREFIGHTER RETIREMENT PLAN

2017 Changes

Changes in Actuarial Assumptions

- There were no significant changes made to actuarial assumptions during 2017.

2016 Changes

Changes in Actuarial Assumptions

- There were no significant changes made to actuarial assumptions during 2016.

2015 Changes

Changes in Actuarial Assumptions

- There were no significant changes made to actuarial assumptions during 2015.

SUPPLEMENTARY INFORMATION

**CITY OF SCANDIA, MINNESOTA
COMBINING BALANCE SHEET
ALL NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2018**

	Debt Service Fund	Economic Development Authority Fund	Park Capital Improvement Fund	Equipment Replacement Fund	Cable TV Fund	Gateway Trail Expansion Fund	Total Nonmajor Funds
ASSETS							
Cash and Cash Equivalents	\$ 34,554	\$ 15,037	\$ 118,614	\$ 275,777	\$ 4,758	\$ 175	\$ 448,915
Accounts Receivable	-	6,474	-	1,200	1,544	-	9,218
Prepays	4,944	-	-	-	-	-	4,944
TOTAL ASSETS	<u>\$ 39,498</u>	<u>\$ 21,511</u>	<u>\$ 118,614</u>	<u>\$ 276,977</u>	<u>\$ 6,302</u>	<u>\$ 175</u>	<u>\$ 463,077</u>
LIABILITIES							
Accounts Payable	\$ -	\$ 197	\$ -	\$ -	\$ 1,150	\$ -	\$ 1,347
Due to Other Funds	537	-	-	-	-	-	537
Advance from Other Funds	-	-	14,000	-	-	-	14,000
Total Liabilities	537	197	14,000	-	1,150	-	15,884
FUND BALANCES							
Nonspendable	4,944	-	-	-	-	-	4,944
Restricted	34,554	-	10,587	-	-	175	45,316
Committed	-	21,314	94,027	-	-	-	115,341
Assigned	-	-	-	276,977	5,152	-	282,129
Unassigned	(537)	-	-	-	-	-	(537)
Total Fund Balances	<u>38,961</u>	<u>21,314</u>	<u>104,614</u>	<u>276,977</u>	<u>5,152</u>	<u>175</u>	<u>447,193</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 39,498</u>	<u>\$ 21,511</u>	<u>\$ 118,614</u>	<u>\$ 276,977</u>	<u>\$ 6,302</u>	<u>\$ 175</u>	<u>\$ 463,077</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, 2018

	Debt Service Fund	Economic Development Authority Fund	Park Capital Improvement Fund	Equipment Replacement Fund	Cable TV Fund	Gateway Trail Expansion Fund	Total Nonmajor Funds
REVENUES							
Taxes	\$ 152,202	\$ 800	\$ -	\$ 30,000	\$ -	\$ -	\$ 183,002
Special Assessments	164	-	-	-	-	-	164
Franchise Fees	-	-	-	-	9,465	-	9,465
Charges for Services	-	-	12,000	-	-	-	12,000
Investment Income	-	203	853	3,212	5	-	4,273
Miscellaneous	-	6,474	2,919	9,540	-	5,175	24,108
TOTAL REVENUES	152,366	7,477	15,772	42,752	9,470	5,175	233,012
EXPENDITURES							
Current:							
Other General Government	-	-	-	-	4,318	-	4,318
Public Works	-	-	-	400	-	-	400
Parks and Recreation	-	-	1,413	-	-	5,000	6,413
Economic Development	-	15,908	-	-	-	-	15,908
Debt Service:							
Principal	130,000	-	-	-	-	-	130,000
Interest and Other Charges	11,700	-	-	-	-	-	11,700
Capital Outlay	-	-	-	257,477	-	-	257,477
TOTAL EXPENDITURES	141,700	15,908	1,413	257,877	4,318	5,000	426,216
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	10,666	(8,431)	14,359	(215,125)	5,152	175	(193,204)
OTHER FINANCING SOURCES (USES)							
Proceeds on Sale of Assets	-	-	-	14,300	-	-	14,300
Operating Transfers In	-	20,000	100,000	-	-	-	120,000
Operating Transfers Out	(18,314)	-	-	-	-	-	(18,314)
TOTAL OTHER FINANCING SOURCES (USES)	(18,314)	20,000	100,000	14,300	-	-	115,986
NET CHANGE IN FUND BALANCES	(7,648)	11,569	114,359	(200,825)	5,152	175	(77,218)
FUND BALANCES - BEGINNING	46,609	9,745	(9,745)	477,802	-	-	524,411
FUND BALANCES - ENDING	\$ 38,961	\$ 21,314	\$ 104,614	\$ 276,977	\$ 5,152	\$ 175	\$ 447,193

**CITY OF SCANDIA, MINNESOTA
SUPPLEMENTAL COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUND – DEBT SERVICE FUND
DECEMBER 31, 2018**

	<u>2007</u> Improvement Bond	<u>2013</u> Equipment Certificates	<u>2015</u> Equipment Certificates	<u>2017</u> Equipment Certificates	<u>Total</u> Debt Service
ASSETS					
Cash and Cash Equivalents	\$ -	\$ 19,059	\$ 15,495	\$ -	\$ 34,554
Prepays	-	3,998	946	-	4,944
TOTAL ASSETS	<u>\$ -</u>	<u>\$ 23,057</u>	<u>\$ 16,441</u>	<u>\$ -</u>	<u>\$ 39,498</u>
LIABILITIES					
Due to Other Funds	\$ -	\$ -	\$ -	\$ 537	\$ 537
FUND BALANCE					
Nonspendable	-	3,998	946	-	4,944
Restricted	-	19,059	15,495	-	34,554
Unassigned	-	-	-	(537)	(537)
Total Fund Balance	<u>-</u>	<u>23,057</u>	<u>16,441</u>	<u>(537)</u>	<u>38,961</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ -</u>	<u>\$ 23,057</u>	<u>\$ 16,441</u>	<u>\$ -</u>	<u>\$ 39,498</u>

CITY OF SCANDIA, MINNESOTA
SUPPLEMENTAL COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUND – DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2018

	2007 Improvement Bond	2013 Equipment Certificates	2015 Equipment Certificates	2017 Equipment Certificates	Total Debt Service
REVENUES					
Taxes	\$ -	\$ 66,752	\$ 47,566	\$ 37,884	\$ 152,202
Special Assessments	164	-	-	-	164
TOTAL REVENUES	<u>164</u>	<u>66,752</u>	<u>47,566</u>	<u>37,884</u>	<u>152,366</u>
EXPENDITURES					
Debt Service:					
Principal	-	55,000	43,000	32,000	130,000
Interest and Other Charges	-	5,069	2,710	3,921	11,700
TOTAL EXPENDITURES	<u>-</u>	<u>60,069</u>	<u>45,710</u>	<u>35,921</u>	<u>141,700</u>
EXCESS OF REVENUES OVER EXPENDITURES	164	6,683	1,856	1,963	10,666
OTHER FINANCING USES					
Operating Transfers Out	<u>(18,314)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(18,314)</u>
NET CHANGE IN FUND BALANCE	(18,150)	6,683	1,856	1,963	(7,648)
FUND BALANCE - BEGINNING	<u>18,150</u>	<u>16,374</u>	<u>14,585</u>	<u>(2,500)</u>	<u>46,609</u>
FUND BALANCE - ENDING	<u>\$ -</u>	<u>\$ 23,057</u>	<u>\$ 16,441</u>	<u>\$ (537)</u>	<u>\$ 38,961</u>

**CITY OF SCANDIA, MINNESOTA
SCHEDULE OF INDEBTEDNESS
FOR THE YEAR ENDED DECEMBER 31, 2018
(UNAUDITED)**

	Issue Dates	Interest Rates	Maturity Dates	Initial Authorized Issue	Outstanding Balance 01/01/18	Issued	Paid	Outstanding Balance 12/31/18	Principal Due in 2019
GOVERNMENTAL INDEBTEDNESS									
2013 Certificates of Indebtedness	7/1/2013	0.80-3.10%	7/1/2023	\$ 570,000	\$ 350,000	\$ -	\$ 55,000	\$ 295,000	\$ 55,000
2015 Certificates of Indebtedness	7/1/2015	1.40-2.30%	7/1/2020	215,000	129,000	-	43,000	86,000	43,000
2017 Certificates of Indebtedness	8/1/2017	2.35-2.75%	8/1/2022	160,000	160,000	-	32,000	128,000	32,000
G.O. Street Reconstruction Bonds, Series 2018A	5/15/2018	3.00-3.13%	12/15/2033	<u>3,835,000</u>	<u>-</u>	<u>3,835,000</u>	<u>-</u>	<u>3,835,000</u>	<u>155,000</u>
TOTAL INDEBTEDNESS				<u>\$ 4,780,000</u>	<u>\$ 639,000</u>	<u>\$ 3,835,000</u>	<u>\$ 130,000</u>	<u>\$ 4,344,000</u>	<u>\$ 285,000</u>

OTHER REQUIRED 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 4, 2019

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, Minnesota (the City), as of and for the year ended December 31, 2018, 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 4, 2019.

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.

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

SCHLENNER WENNER & CO.

St. Cloud, Minnesota

**CITY OF SCANDIA, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2018**

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. It is important that the Council is aware of this condition and monitor all financial information.

Views of Responsible Officials And Planned Corrective Actions: Management agrees with the recommendation. See corresponding Corrective Action Plan.

**CITY OF SCANDIA, MINNESOTA
CORRECTIVE ACTION PLANS
FOR THE YEAR ENDED DECEMBER 31, 2018**

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 currently has the following procedures in place:
 - The City's Department Heads review all invoices received. The City Council also reviews the monthly invoices and approves the expenditures.
 - The City utilizes claim listings which are approved by the City Administrator.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 4, 2019

Honorable Mayor and City Council
City of Scandia, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Scandia, Minnesota (the City) as of and for the year ended December 31, 2018, and the related notes to the financial statements, and have issued our report thereon dated April 4, 2019.

The *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minnesota Statute Section 6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories, except tax increment financing, since the City has none.

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

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

Schlenner Wenner & Co.

SCHLENNER WENNER & CO.
St. Cloud, Minnesota