

CITY OF SCANDIA, MINNESOTA
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
YEAR ENDED DECEMBER 31, 2012

City of Scandia
14727 209th Street North
Scandia, Minnesota 55073

**CITY OF SCANDIA, MINNESOTA
TABLE OF CONTENTS
YEAR ENDED DECEMBER 31, 2012**

I. INTRODUCTORY SECTION

Elected and Appointed Officials

II. FINANCIAL SECTION

Independent Auditors' Report	1
REQUIRED SUPPLEMENTARY INFORMATION	
Management's Discussion and Analysis	4
Basic Financial Statements	
Statement of Net Position	14
Statement of Activities	15
Balance Sheet – Governmental Funds	17
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position – Governmental Activities	18
Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds	19
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities – Governmental Activities	20
Statement of Net Position – Proprietary Funds	21
Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Funds	22
Statement of Cash Flows – Proprietary Funds	23
Statement of Net Position – Fiduciary Fund	24
Notes to Basic Financial Statements	25
Required Supplementary Information – Budgetary Comparison Information	
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund	44
Notes to Required Supplementary Information	46
Combining Fund Financial Statements	
Combining Balance Sheet – Nonmajor Governmental Funds	47
Combining Statement of Revenues, Expenditures and Changes in Fund Balance – Nonmajor Governmental Funds	48
Statement of Changes in Assets and Liabilities – Fiduciary Funds	49

**CITY OF SCANDIA, MINNESOTA
TABLE OF CONTENTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2012**

III. OTHER REQUIRED REPORTS

Independent Auditors' Report on Minnesota Legal Compliance	50
Independent Auditors' Report on Internal Control Over Financial Reporting and on Copliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	51

I.
INTRODUCTORY
SECTION

**CITY OF SCANDIA, MINNESOTA
ELECTED AND APPOINTED OFFICIALS
DECEMBER 31, 2012**

Elected	Position
Randall Simonson	Mayor
Connie Amos	Council Member
Chris Ness	Council Member
Sally Swanson	Council Member
Jim Schnieder	Council Member
Appointed	
Kristina Handt	Clerk
Colleen Firkus	Treasurer

II.
FINANCIAL
SECTION



CliftonLarsonAllen

CliftonLarsonAllen LLP
www.cliftonlarsonallen.com

INDEPENDENT AUDITORS' REPORT

Honorable Mayor and
Members of the City Council and Citizens
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 (the City), as of and for the year ended December 31, 2012, 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.

Auditors' 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 assurances 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 auditors' 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 entity'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.

Honorable Mayor and
Members of the City Council and Citizens
City of Scandia, Minnesota

Opinions

In our opinions, 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, as of December 31, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Honorable Mayor and
Members of the City Council and Citizens
City of Scandia, Minnesota

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 6, 2013, on our consideration of the City's internal control over financial reporting and on 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 result 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's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Minneapolis, Minnesota
May 6, 2013

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF SCANDIA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2012**

As management of the City, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2012.

Financial Highlights

- The City's net position of its governmental activities increased by \$65,348 during the year to \$10,314,870 at year-end.
- The total fund balance of the General Fund increased by \$75,877 during the year to \$1,329,553 at year-end.
- The net position of the City's business-type activities (201 Sewer and Uptown Sewer Enterprise Funds) increased by \$113,137 during the year to \$1,143,439.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-Wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, public works, parks and recreation, and other. The only business-type activities of the City are the sewer operations.

The government-wide financial statements can be found on pages 14-16 of this report.

**CITY OF SCANDIA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2012**

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact by the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains several individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General Fund, 2007 Improvement Bond Debt Service Fund, and the Equipment Replacement Capital Project Fund. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in these financial statements.

The City adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 17-20 of this report.

Proprietary Funds. The *proprietary funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its business-type activities.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the 201 Sewer Enterprise and Uptown Sewer Funds, which are considered to be major funds of the City.

**CITY OF SCANDIA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2012**

Fund Financial Statements (Continued)

Proprietary Funds (Continued)

The basic proprietary fund financial statements can be found on pages 21-23 of this report.

Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to financial statements can be found on pages 25-43 of this report.

Other Information

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the notes to financial statements. Combining and individual fund statements and schedules can be found on pages 47-48 of this report.

Government-Wide Financial Analysis

The City's financial statements are presented in accordance with the requirements of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis-for State and Local Governments*. Comparative information is included in these tables to highlight changes in financial position, shown in Exhibits 1-2.

The government-wide statements report the City's net position and how they have changed. Net position, the difference between the City's assets and liabilities, are one way to measure the City's financial position. Over time, increases or decreases in the City's net position can be used as an indicator of the City's financial position.

The City's financial position is the product of many factors. For example, the determination of the City's investment in capital assets, net of related debt involves many assumptions and estimates, such as current and accumulated depreciation amounts. A conservative versus a liberal approach to depreciation estimates, as well as capitalization policies, will produce a very significant difference in the calculated amounts. For these reasons, it is important to view the net position balance as a starting point to evaluate future years' results, rather than to focus on the current balance.

**CITY OF SCANDIA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2012**

EXHIBIT 1: CITY OF SCANDIA'S NET POSITION

	Governmental Activities		Business-Type Activities		Totals	
	2012	2011	2012	2011	2012	2011
Current and Other Assets	\$ 2,604,321	\$ 2,632,021	\$ 145,792	\$ 219,098	\$ 2,750,113	\$ 2,851,119
Capital Assets, Net	9,105,424	9,401,146	1,019,890	840,000	10,125,314	10,241,146
Total Assets	11,709,745	12,033,167	1,165,682	1,059,098	12,875,427	13,092,265
Current Liabilities	163,922	247,863	22,243	28,796	186,165	276,659
Long-Term Liabilities	1,230,953	1,535,782	-	-	1,230,953	1,535,782
Total Liabilities	1,394,875	1,783,645	22,243	28,796	1,417,118	1,812,441
Net Position:						
Net Investment in Capital Assets	7,889,487	7,884,454	1,019,890	840,000	8,909,377	8,724,454
Restricted for Debt Retirement	592,307	596,540	-	-	592,307	596,540
Restricted for Road Maintenance	123,651	122,573	-	-	123,651	122,573
Unrestricted	1,709,425	1,645,955	123,549	190,302	1,832,974	1,836,257
Total Net Position	\$ 10,314,870	\$ 10,249,522	\$ 1,143,439	\$ 1,030,302	\$ 11,458,309	\$ 11,279,824

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$11,458,308 at the close of the most recent fiscal year. The largest portion of the City's net position (78%) reflects its investment in capital assets (e.g., land, buildings, machinery and equipment), less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens: consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The City's debt is repaid primarily through special assessments, property tax levies for debt of governmental activities and user charges provide the financing for the debt of the business-type activities.

An additional portion of the City's net position (6%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position* (\$1,838,029) may be used to meet the City's ongoing obligations to citizens and creditors.

**CITY OF SCANDIA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2012**

EXHIBIT 2: CHANGES IN NET POSITION

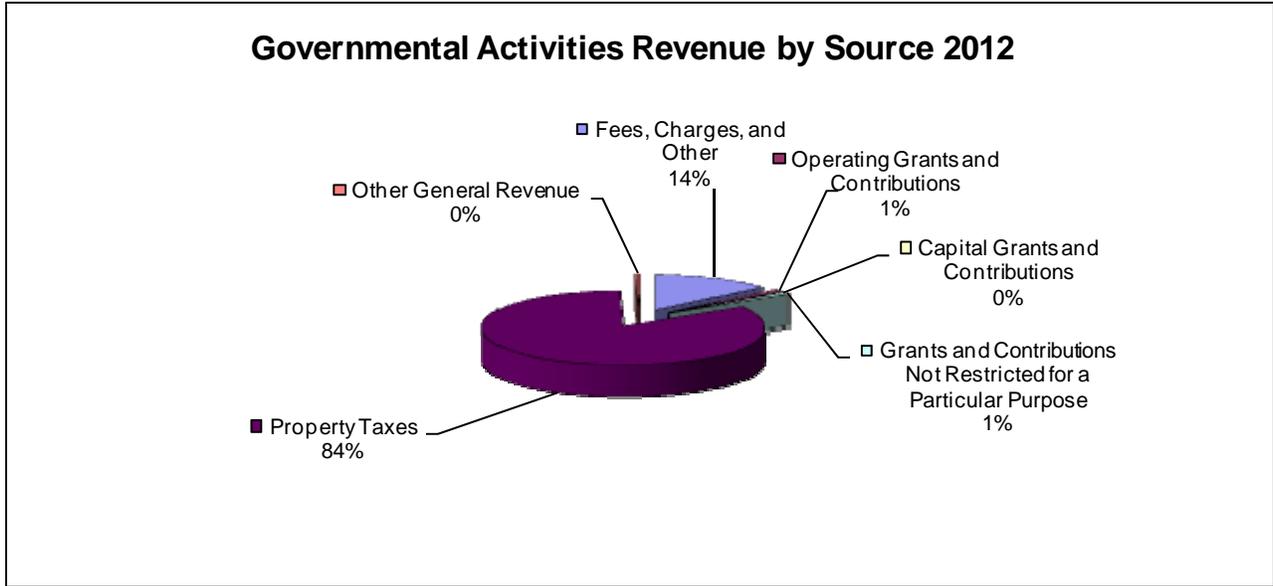
	Governmental Activities		Business-Type Activities		Totals	
	2012	2011	2012	2011	2012	2011
REVENUES						
<u>Program Revenues</u>						
Charges for Services	\$ 342,434	\$ 357,179	\$ 80,275	\$ 66,203	\$ 422,709	\$ 423,382
Operating Grants and Contributions	25,381	44,380	-	-	25,381	44,380
Capital Grants and Contributions	7,129	25,799	5,151	-	12,280	25,799
<u>General Revenues</u>						
Property Taxes	2,073,163	1,921,044	-	-	2,073,163	1,921,044
Grants and Contributions Not Restricted for a Particular Purpose	18,918	9,330	-	-	18,918	9,330
Other	10,878	16,973	723	1,205	11,601	18,178
Total Revenues	<u>2,477,903</u>	<u>2,374,705</u>	<u>86,149</u>	<u>67,408</u>	<u>2,564,052</u>	<u>2,442,113</u>
EXPENSES						
General Government	736,560	687,731	-	-	736,560	687,731
Public Safety	383,522	425,673	-	-	383,522	425,673
Public Works	960,724	848,899	-	-	960,724	848,899
Parks and Recreation	95,567	133,215	-	-	95,567	133,215
Interest and Fiscal Charges	65,573	68,364	-	-	65,573	68,364
Sewer	-	-	143,621	91,029	143,621	91,029
Total Expenses	<u>2,241,946</u>	<u>2,163,882</u>	<u>143,621</u>	<u>91,029</u>	<u>2,385,567</u>	<u>2,254,911</u>
TRANSFERS	<u>(170,609)</u>	<u>3,645</u>	<u>170,609</u>	<u>(3,645)</u>	<u>-</u>	<u>-</u>
CHANGE IN NET POSITION	65,348	214,468	113,137	(27,266)	178,485	187,202
Net Position - Beginning of Year	<u>10,249,522</u>	<u>10,035,054</u>	<u>1,030,302</u>	<u>1,057,568</u>	<u>11,279,824</u>	<u>11,092,622</u>
NET POSITION - END OF YEAR	<u>\$ 10,314,870</u>	<u>\$ 10,249,522</u>	<u>\$ 1,143,439</u>	<u>\$ 1,030,302</u>	<u>\$ 11,458,309</u>	<u>\$ 11,279,824</u>

Governmental Activities. Governmental activities increased the City's net position by \$65,348.

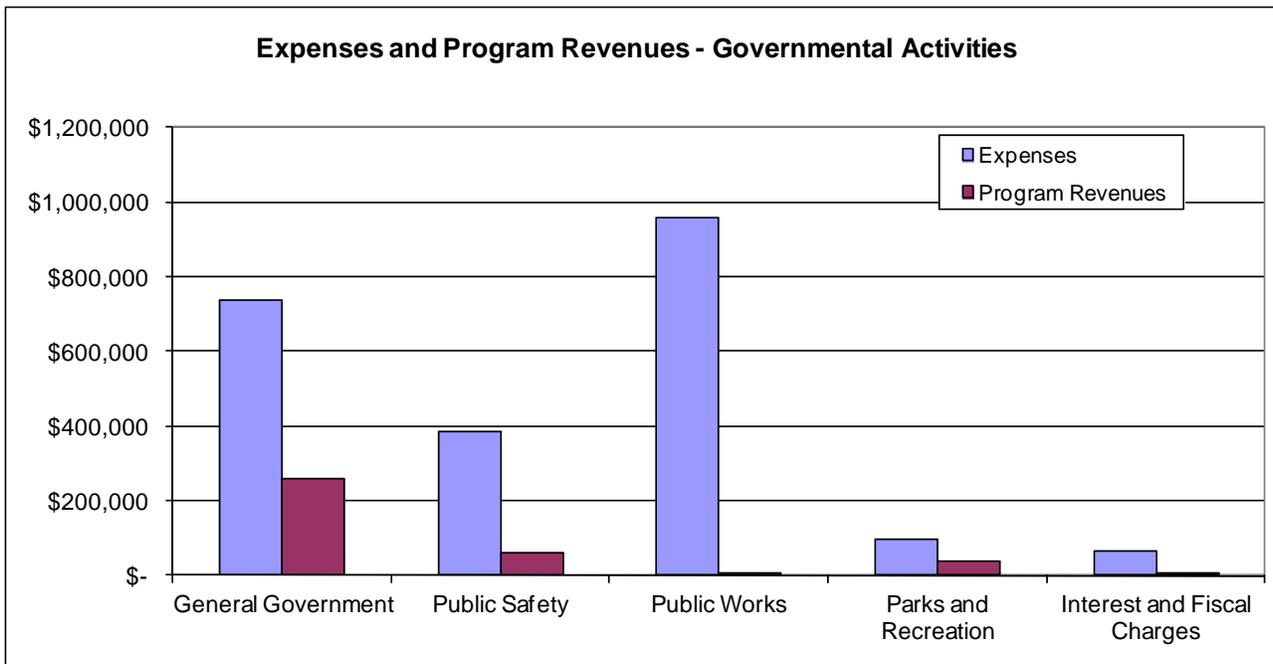
Business-Type Activities. Business-type expenses (201 Sewer and Uptown Sewer Enterprise Funds) increased the City's net position by \$113,137.

**CITY OF SCANDIA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2012**

The following is a graphical representation of the various sources of the City's governmental revenues (excluding transfers) of \$2,477,903:

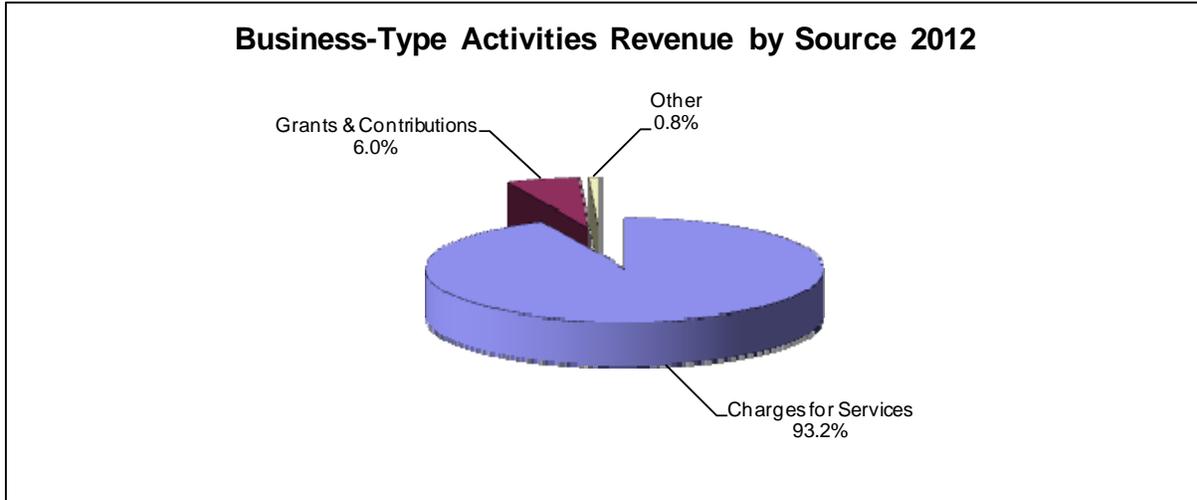


The following is a graphical representation of the various sources of the City's governmental expenses of \$2,241,947 and program revenues of \$374,944:

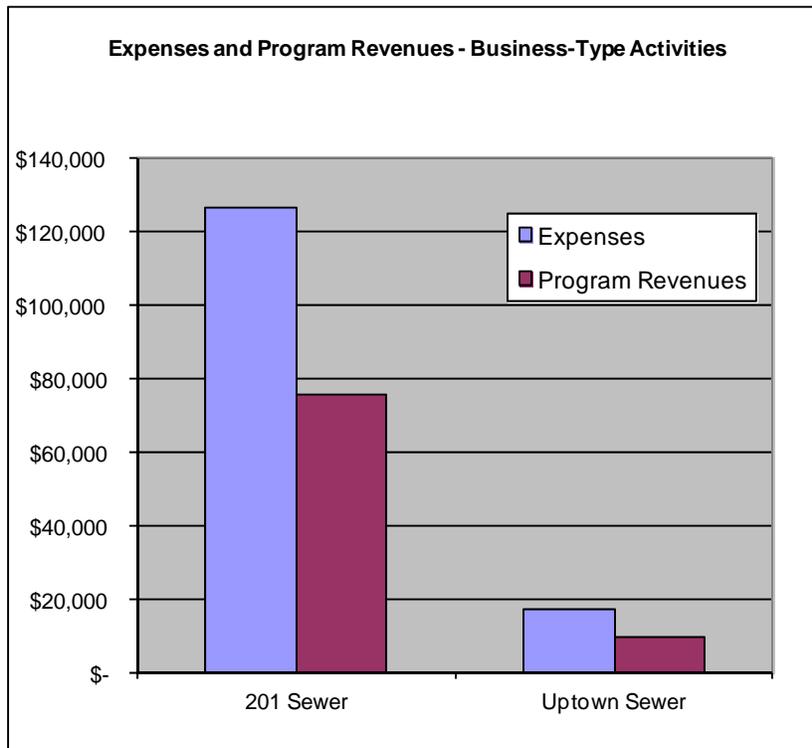


**CITY OF SCANDIA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2012**

The following is a graphical representation of the various sources of the City's business-type revenues of \$86,149:



The following is a graphical representation of the various sources of the City's business-type expenses of \$143,621 and program revenues of \$85,426:



**CITY OF SCANDIA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2012**

Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, all of the City's governmental funds together reported combined ending fund balances of \$2,247,425, an increase of \$69,943 in comparison with the prior year. Of the \$2,247,425 fund balance, 72% (\$1,626,825) constitutes *unrestricted fund balance*, which is available for spending at the City's discretion. The *unrestricted fund balance* is broken into two categories, *assigned* and *unassigned*. *Unassigned fund balance* represents 52% (\$1,177,870) and *assigned fund balance* represents 20% (\$448,955). The remainder of the fund balance consists of *nonspendable and restricted fund balance*. *Nonspendable fund balance* constitutes 1% (\$28,032) and *restricted fund balance* constitutes 26% (\$592,568).

The General Fund is the chief operating fund of the City. At the end of the current year, fund balance of the General Fund was \$1,329,553, an increase of \$75,877 over the prior fiscal year. Key factors in this change in fund balance are as follows:

- Actual expenditures totaled \$1,843,649 (excluding transfers) for 2012 compared to budgeted expenditures of \$1,769,009, a net variance of \$74,640.
- Actual revenues totaled \$1,994,957 for 2012 compared to budgeted revenues of \$1,836,680, a net favorable variance of \$158,277 (before transfers). Revenue from Zoning and Hearing Fees were \$105,026 more than budgeted due to reimbursements for the Zavoral Mine EIS. Intergovernmental Revenue was \$25,902 more than budgeted due to unanticipated State Market Value Credit payments and Fire State Aid. Donations and Other Revenue were \$25,239 more than budgeted due to a large insurance dividend (\$12,900), Insurance Premium Refunds (\$2,313), Impound Fees (\$910), and Donations.

Because property tax revenues are not received until the middle of the budget year, it is important that the City carry fund balances sufficient to cover anticipated expenses for the first half of the budget year. If not, the City would be forced to borrow (and pay interest on) the funds necessary to meet basic expenses such as payroll. The \$1,117,870 of unassigned fund balance in the General Fund is adequate for cash flow purposes.

**CITY OF SCANDIA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2012**

General Fund Budgetary Highlights

Detail of the General Fund original budget, final budget and actual revenues and expenditures can be found beginning on page 44 of this report. The net change in the General Fund Balance was \$75,877.

The City Council approved the following budget amendments during the year:

- Increased Other Professional Services by \$7,300 to pay for a City Administrator search and hiring contract with Springsted, Inc.
- Increased Donations by \$1,000 in Administration & Finance and reduce Council Conference and Seminars by \$1,000 to make a donation to the Washington County Historical Society for its Heritage Center.
- Increased Fire revenue Donations by \$2,000 and increase Fire expense Small Tools and Minor Equipment to accept a Lions Club donation for the purchase of a winch and trailer for the Fire Department.
- Reduce Contractual Road Maintenance, Regular Wages and Health Insurance line items in the Public Works budget to meet equipment needs, which resulted in a net decrease in the budget of \$176.
- Reduced several lines items in the Fire Department budget to cover the purchase of two tablet computers for \$6,657 needed for interdepartmental emergency communications and an increase in Turnout Gear and Uniforms required for new firefighters.

Actual expenditures were less than budgets in several departments. Spending in the Public Safety Department was \$20,688 less than budgeted (largely due to under-spending in Fire). Spending in Public Works was \$68,804 less than budgeted (largely due to under-spending for personnel, engineering and gravel/salt budgets). Spending in General Government Departments was \$172,158 higher than budgeted (largely due to the Zavoral Mine EIS expenses). Spending in Parks and Recreation was \$8,026 less than budgeted due to changes made in facilities and grounds maintenance.

Proprietary Funds. The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of the 201 Sewer operations at the end of the year amounted to \$167,904. Unrestricted net position of the Uptown Sewer operations at the end of the year amounted to (\$44,355).

Capital Asset and Debt Administration

Capital Assets. The City's investment in capital assets for its governmental and business type activities as of December 31, 2012, amounts to \$10,125,314 (net of accumulated depreciation). This investment in capital assets includes land, construction in process, buildings, equipment and vehicles, other improvements, the sewer system, and infrastructure. This represents a decrease in the City of Scandia's investment in capital assets (net of accumulated depreciation) of 1.1%.

**CITY OF SCANDIA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2012**

**CITY OF SCANDIA'S CAPITAL ASSETS
(Net of Depreciation)**

	Governmental Activities		Business-Type Activities		Totals	
	2012	2011	2012	2011	2012	2011
Land	\$ 487,735	\$ 487,735	\$ -	\$ -	\$ 487,735	\$ 487,735
Construction in Process	-	111,852	-	-	-	111,852
Buildings	2,232,670	2,232,670	-	-	2,232,670	2,232,670
Equipment and Vehicles	1,641,953	1,371,717	-	-	1,641,953	1,371,717
Infrastructure	9,273,769	9,359,242	-	-	9,273,769	9,359,242
Other Improvements	162,647	162,647	-	-	162,647	162,647
Sewer System	-	-	1,500,000	1,500,000	1,500,000	1,500,000
Uptown Sewer	-	-	243,827	-	243,827	-
Less: Accumulated Depreciation	(4,693,350)	(4,324,717)	(723,937)	(660,000)	(5,417,287)	(4,984,717)
Total	<u>\$ 9,105,424</u>	<u>\$ 9,401,146</u>	<u>\$ 1,019,890</u>	<u>\$ 840,000</u>	<u>\$ 10,125,314</u>	<u>\$ 10,241,146</u>

Long-Term Debt. At the end of the current fiscal year, the City had total bonded debt outstanding of \$1,235,000. All debt is backed by the full faith and credit of the City.

**CITY OF SCANDIA'S OUTSTANDING DEBT
(General Obligation)**

	Governmental Activities		Business-Type Activities		Totals	
	2012	2011	2012	2011	2012	2011
LONG-TERM OBLIGATIONS						
Long-Term Debt:						
General Obligation Notes	\$ 1,235,000	\$ 1,540,000	\$ -	\$ -	\$ 1,235,000	\$ 1,540,000
Unamortized Bond Discount	(19,063)	(23,308)	-	-	(19,063)	(23,308)
Compensated Absences	15,016	19,090	-	-	15,016	19,090
Total	<u>\$ 1,230,953</u>	<u>\$ 1,535,782</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,230,953</u>	<u>\$ 1,535,782</u>

Additional information on long-term debt is presented in Note 4 of this report.

Economic Factors and Next Year's Budgets and Rates

- The City Council has approved a balanced budget for the General Fund for 2013. Staff will continually monitor the budget and recommend any revisions that are deemed necessary to the City Council.
- During the current economic downturn the City will continue to experience slow or no growth, and the revenues from permits and interest income will continue to be below historic levels. Staff will continue to monitor the changes in this area to prepare for 2014 budget discussions, which will begin in June of 2013.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Scandia, 14727 209th St. N., Scandia, Minnesota 55073 (telephone 651-433-2274).

BASIC FINANCIAL STATEMENTS

**CITY OF SCANDIA, MINNESOTA
STATEMENT OF NET POSITION
DECEMBER 31, 2012**

	Governmental Activities	Business-Type Activities	Totals
ASSETS			
Cash and Investments	\$ 2,274,415	\$ 164,529	\$ 2,438,944
Receivables:			
Taxes and Other	122,912	11,939	134,851
Special Assessments	128,783	8,912	137,695
Internal Balances	39,588	(39,588)	-
Unamortized Issuance Costs	10,591	-	10,591
Prepaid Items	22,392	-	22,392
Inventory	5,640	-	5,640
Capital Assets, Nondepreciable	487,735	-	487,735
Capital Assets, Net of Accumulated Depreciation	8,617,689	1,019,890	9,637,579
Total Assets	11,709,745	1,165,682	12,875,427
LIABILITIES			
Accounts and Contracts Payable	128,301	22,243	150,544
Accrued Payroll, Taxes and Benefits	27,643	-	27,643
Interest Payable	5,408	-	5,408
Unearned Revenue	2,570	-	2,570
Noncurrent Liabilities:			
Due Within One Year	317,355	-	317,355
Due in More Than One Year	913,598	-	913,598
Total Liabilities	1,394,875	22,243	1,417,118
NET POSITION			
Net Investment in Capital Assets	7,889,487	1,019,890	8,909,377
Restricted for Debt Retirement	592,307	-	592,307
Restricted for Road Maintenance	123,651	-	123,651
Unrestricted	1,709,425	123,549	1,832,974
Total Net Position	\$ 10,314,870	\$ 1,143,439	\$ 11,458,309

See accompanying Notes to Basic Financial Statements.

**CITY OF SCANDIA, MINNESOTA
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2012**

FUNCTIONS/PROGRAMS	Program Revenues			
	Expenses	Charges for Service	Operating Grants and Contributions	Capital Grants and Contributions
Government Activities:				
General Government	\$ 736,560	\$ 260,647	\$ -	\$ -
Public Safety	383,522	33,551	25,381	-
Public Works	960,724	1,244	-	7,129
Parks and Recreation	95,567	39,769	-	-
Interest and Fiscal Charges	65,573	7,223	-	-
Total Governmental Activities	2,241,946	342,434	25,381	7,129
Business-Type Activities:				
Sewer	126,143	70,696	-	5,151
Uptown Sewer	17,478	9,579	-	-
Total Business-Type Activities	143,621	80,275	-	5,151
Total Primary Government	\$ 2,385,567	\$ 422,709	\$ 25,381	\$ 12,280

GENERAL REVENUES

Taxes:

Property Taxes, Levied for General Purposes
Grants and Contributions not Restricted for a Particular Purpose
Investment Earnings
Total General Revenues

Transfers

CHANGE IN NET POSITION

Net Position - Beginning of Year

NET POSITION - END OF YEAR

Net (Expense) Revenue and
Changes in Net Position

Governmental Activities	Business-Type Activities	Total
\$ (475,913)	\$ -	\$ (475,913)
(324,590)	-	(324,590)
(952,351)	-	(952,351)
(55,798)	-	(55,798)
(58,350)	-	(58,350)
<u>(1,867,002)</u>	<u>-</u>	<u>(1,867,002)</u>
-	(50,296)	(50,296)
-	(7,899)	(7,899)
<u>-</u>	<u>(58,195)</u>	<u>(58,195)</u>
(1,867,002)	(58,195)	(1,925,197)
2,073,163	-	2,073,163
18,918	-	18,918
10,878	723	11,601
<u>2,102,959</u>	<u>723</u>	<u>2,103,682</u>
<u>(170,609)</u>	<u>170,609</u>	<u>-</u>
65,348	113,137	178,485
<u>10,249,522</u>	<u>1,030,302</u>	<u>11,279,824</u>
<u>\$ 10,314,870</u>	<u>\$ 1,143,439</u>	<u>\$ 11,458,309</u>

**CITY OF SCANDIA, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2012**

	General Fund	2007 Improvement Bond Debt Service	Equipment Replacement Fund	Nonmajor Governmental Funds	Totals
ASSETS					
Cash and Investments	\$ 1,396,131	\$ 240,996	\$ 222,393	\$ 414,895	\$ 2,274,415
Taxes Receivable	92,792	15	-	8	92,815
Special Assessments Receivable	-	128,783	-	-	128,783
Other Receivables	30,097	-	-	-	30,097
Prepaid Items	22,392	-	-	-	22,392
Inventory	5,640	-	-	-	5,640
Advance to Other Funds	-	-	-	39,588	39,588
Total Assets	\$ 1,547,052	\$ 369,794	\$ 222,393	\$ 454,491	\$ 2,593,730
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts and Contracts Payable	\$ 128,301	\$ -	\$ -	\$ -	\$ 128,301
Accrued Payroll, Taxes and Benefits	27,643	-	-	-	27,643
Deferred Revenue	61,555	128,798	-	8	190,361
Total Liabilities	217,499	128,798	-	8	346,305
Fund Balances:					
Nonspendable:					
Prepaid Items	22,392	-	-	-	22,392
Inventory	5,640	-	-	-	5,640
Advance to Other Funds	-	-	-	39,588	39,588
Restricted for:					
Debt Service	-	240,996	-	227,921	468,917
Road Maintenance	123,651	-	-	-	123,651
Assigned for:					
Infrastructure Improvement Projects	-	-	-	177,568	177,568
Acquisition and Development of Parks	-	-	-	9,406	9,406
Equipment Replacement	-	-	222,393	-	222,393
Unassigned	1,177,870	-	-	-	1,177,870
Total Fund Balances	1,329,553	240,996	222,393	454,483	2,247,425
Total Liabilities and Fund Balances	\$ 1,547,052	\$ 369,794	\$ 222,393	\$ 454,491	\$ 2,593,730

See accompanying Notes to Basic Financial Statements.

**CITY OF SCANDIA, MINNESOTA
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2012**

TOTAL FUND BALANCES FOR GOVERNMENTAL FUNDS \$ 2,247,425

Total net position reported for governmental activities in the statement of net position is different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Capital Assets	\$ 13,798,774	
Less: Accumulated Depreciation	<u>(4,693,350)</u>	9,105,424

Some receivables, including special assessments, are reported as deferred revenue in the fund financial statements but are recognized as revenue when earned in the government-wide statements. These deferred revenues consist of:

Special Assessments on Tax Roll	59,006	
Other Special Assessments	<u>128,785</u>	187,791

Bond and equipment certificate issuance costs are reported as expenditures in the governmental funds and are shown as assets net of accumulated amortization on the statement of net position. 10,591

Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds. These liabilities consist of:

Long-Term Obligations	(1,230,953)	
Accrued Interest on Long-Term Debt	<u>(5,408)</u>	<u>(1,236,361)</u>

TOTAL NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 10,314,870

CITY OF SCANDIA, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2012

	General Fund	2007 Improvement Bond Debt Service	Equipment Replacement Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES					
Taxes	\$ 1,601,201	\$ 146,902	\$ -	\$ 312,375	\$ 2,060,478
Special Assessments	-	32,245	-	-	32,245
Intergovernmental Revenue	51,199	-	-	-	51,199
Licenses and Permits	54,657	-	-	-	54,657
Charges for Services	234,170	-	-	-	234,170
Fines and Forfeits	17,818	-	-	-	17,818
Miscellaneous Revenue	35,912	914	1,113	1,828	39,767
Total Revenues	<u>1,994,957</u>	<u>180,061</u>	<u>1,113</u>	<u>314,203</u>	<u>2,490,334</u>
EXPENDITURES					
Current:					
General Government	708,965	-	-	-	708,965
Public Safety	338,231	-	-	-	338,231
Public Works	636,322	-	-	-	636,322
Parks and Recreation Center	82,326	-	-	-	82,326
Fixed and Other	1,000	-	-	-	1,000
Debt Service:					
Principal Payments	-	135,000	-	170,000	305,000
Interest Payments	-	30,850	-	29,207	60,057
Capital Outlay:					
General Government	1,946	-	-	-	1,946
Public Safety	8,980	-	93,914	-	102,894
Public Works	63,479	-	-	-	63,479
Parks and Recreation Center	2,400	-	-	3,574	5,974
Total Expenditures	<u>1,843,649</u>	<u>165,850</u>	<u>93,914</u>	<u>202,781</u>	<u>2,306,194</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	151,308	14,211	(92,801)	111,422	184,140
OTHER FINANCING SOURCES (USES)					
Transfer In	4,569	-	80,000	-	84,569
Transfer Out	(80,000)	-	-	(118,766)	(198,766)
Total Other Financing Sources (Uses)	<u>(75,431)</u>	<u>-</u>	<u>80,000</u>	<u>(118,766)</u>	<u>(114,197)</u>
NET CHANGE IN FUND BALANCES	75,877	14,211	(12,801)	(7,344)	69,943
Fund Balances - Beginning of Year	<u>1,253,676</u>	<u>226,785</u>	<u>235,194</u>	<u>461,827</u>	<u>2,177,482</u>
FUND BALANCES - END OF YEAR	<u>\$ 1,329,553</u>	<u>\$ 240,996</u>	<u>\$ 222,393</u>	<u>\$ 454,483</u>	<u>\$ 2,247,425</u>

See accompanying Notes to Basic Financial Statements.

CITY OF SCANDIA, MINNESOTA
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES
GOVERNMENTAL ACTIVITIES
YEAR ENDED DECEMBER 31, 2012

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ 69,943

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.

Capital Outlays Reported in Governmental Fund Statements	\$ 158,384	
Depreciation Expense	<u>(397,694)</u>	(239,310)

Receivables not currently available are reported as deferred revenue in the fund financial statements, but are recognized as revenue when earned in the government-wide statements. (12,431)

The governmental funds report bond proceeds as financing sources, while repayment of bond principal is reported as an expenditure. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities and repayment of principal reduces the liability. Also, governmental funds report the effect of issuance costs, premiums and discounts when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. Interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, however, interest expense is recognized as it accrues, regardless of when it is due. The net effect of these differences in the treatment of general obligation debt and related items is as follows:

Repayment of Bond Principal	305,000	
Change in Accrued Interest Expense	1,405	
Amortization of Equipment Certificate Issuance Costs	(930)	
Amortization of Bond Issuance Costs	(1,746)	
Amortization of Bond Discount	<u>(4,245)</u>	299,484

In the statement of activities, compensated absences are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (generally, the amounts actually paid). During the year, the balance of compensated absences payable decreased. 4,074

A total of \$85,473 of infrastructure (net of \$29,061 of accumulated depreciation) was transferred from the governmental activities capital assets to the Uptown Sewer Enterprise Fund, as this enterprise fund was established as of January 1, 2012. (56,412)

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 65,348

**CITY OF SCANDIA, MINNESOTA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2012**

	201 Sewer Enterprise Fund	Uptown Sewer Fund	Total 2012
ASSETS			
Current Assets:			
Cash and Investments	\$ 164,529	\$ -	\$ 164,529
Special Assessments Receivable	8,912	-	8,912
Other Accounts Receivable	9,574	2,365	11,939
Due from Other Funds	636	-	636
Total Current Assets	183,651	2,365	186,016
Noncurrent Assets:			
Capital Assets:			
Collection Systems	1,500,000	243,827	1,743,827
Less: Accumulated Depreciation	(690,000)	(33,937)	(723,937)
Total Capital Assets	810,000	209,890	1,019,890
Total Assets	993,651	212,255	1,205,906
LIABILITIES			
Current Liabilities:			
Accounts Payable	15,747	6,496	22,243
Due to Other Funds	-	636	636
Total Current Liabilities	15,747	7,132	22,879
Advance from Other Funds	-	39,588	39,588
Total Liabilities	15,747	46,720	62,467
NET POSITION			
Invested in Capital Assets	810,000	209,890	1,019,890
Unrestricted	167,904	(44,355)	123,549
Total Net Position	977,904	165,535	1,143,439
Total Liabilities and Net Position	\$ 993,651	\$ 212,255	\$ 1,205,906

See accompanying Notes to Basic Financial Statements.

CITY OF SCANDIA, MINNESOTA
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2012

	201 Sewer Enterprise Fund	Uptown Sewer Fund	Total 2012
OPERATING REVENUES			
Charges for Service	\$ 70,696	\$ 9,579	\$ 80,275
OPERATING EXPENSES			
Depreciation	30,000	4,876	34,876
Utilities	1,637	377	2,014
Maintenance and Other	94,506	12,225	106,731
Total Operating Expenses	<u>126,143</u>	<u>17,478</u>	<u>143,621</u>
OPERATING LOSS	(55,447)	(7,899)	(63,346)
NONOPERATING REVENUE			
Interest Revenue	723	-	723
Special Assessments	5,151	-	5,151
Total Nonoperating Revenue	<u>5,874</u>	<u>-</u>	<u>5,874</u>
LOSS BEFORE TRANSFERS	(49,573)	(7,899)	(57,472)
TRANSFERS			
Transfer In	-	175,178	175,178
Transfer Out	(2,825)	(1,744)	(4,569)
Total Transfers	<u>(2,825)</u>	<u>173,434</u>	<u>170,609</u>
CHANGE IN NET POSITION	(52,398)	165,535	113,137
Net Position - Beginning of Year	<u>1,030,302</u>	<u>-</u>	<u>1,030,302</u>
NET POSITION - END OF YEAR	<u>\$ 977,904</u>	<u>\$ 165,535</u>	<u>\$ 1,143,439</u>

See accompanying Notes to Basic Financial Statements.

**CITY OF SCANDIA, MINNESOTA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2012**

	201 Sewer Enterprise Fund	Uptown Sewer Enterprise Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Received from Customers	\$ 71,570	\$ 7,214	\$ 78,784
Cash Paid to Suppliers for Goods and Services	(109,192)	(6,106)	(115,298)
Net Cash Provided (Used) by Operating Activities	(37,622)	1,108	(36,514)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfer Out	(2,825)	(1,744)	(4,569)
Due to/Due from to Cover Negative Cash	(636)	636	-
Net Cash Used by Noncapital Activities	(3,461)	(1,108)	(4,569)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchases of Capital Assets	-	(158,354)	(158,354)
Transfer In from Capital Improvement Fund	-	118,766	118,766
Advance from Capital Improvement Fund	-	39,588	39,588
Net Cash Used for Capital and Related Financing Activities	-	-	-
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest on Investments	723	-	723
NET DECREASE IN CASH AND CASH EQUIVALENTS			
	(40,360)	-	(40,360)
Cash and Cash Equivalents - Beginning of Year	204,889	-	204,889
CASH AND CASH EQUIVALENTS - END OF YEAR			
	\$ 164,529	\$ -	\$ 164,529
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES			
Operating Loss	\$ (55,447)	\$ (7,899)	\$ (63,346)
Adjustments to Reconcile Operating Loss to Net Cash Provided (Used) by Operating Activities:			
Depreciation Expense	30,000	4,876	34,876
Special Assessments	5,151	-	5,151
Changes in Asset and Liability Accounts:			
Increase in Special Assessments Receivable	(1,991)	-	(1,991)
Decrease in Other Accounts Receivable	(2,286)	(2,365)	(4,651)
Decrease in Prepayments	-	-	-
Increase in Due from County	-	-	-
Increase (Decrease) in Accounts Payable	(13,049)	6,496	(6,553)
Net Cash Provided (Used) by Operating Activities	\$ (37,622)	\$ 1,108	\$ (36,514)
NONCASH CAPITAL FINANCING ACTIVITIES			
Capital Assets of \$56,412 (net of accumulated depreciation) were transferred from Governmental-Activities Capital-Assets to the 201 Uptown Sewer Fund			

See accompanying Notes to Basic Financial Statements.

**CITY OF SCANDIA, MINNESOTA
STATEMENT OF NET POSITION
FIDUCIARY FUND
DECEMBER 31, 2012**

	<u>Agency Fund</u>
ASSETS	
Current Assets:	
Cash and Investments	<u>\$ 172,347</u>
 LIABILITIES	
Current Liabilities:	
Contractor Deposits	<u>\$ 172,347</u>

See accompanying Notes to Basic Financial Statements.

CITY OF SCANDIA, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Scandia (City) is a public corporation formed under Minnesota Statute 412. As such, the City is under statutory city regulations and applicable statutory guidelines.

The basic financial statements of the City have been prepared in conformity with U.S. generally accepted accounting principles as applied to governmental units by the Governmental Accounting Standards Board (GASB). The following is a summary of the significant accounting policies:

A. FINANCIAL REPORTING ENTITY

As required by U.S. generally accepted accounting principles, the financial statements of the reporting entity include all funds, departments, agencies, boards, commissions, and other organizations over which City officials exercise oversight responsibility.

Component units are legally separate entities for which the City (primary government) is financially accountable, or for which the exclusion of the component unit would render the financial statements of the Primary Government misleading. The criteria used to determine if the Primary Government is financially accountable for a component unit include whether or not the Primary Government appoints the voting majority of the potential component unit's governing body, is able to impose its will on the potential component unit, is in a relationship of financial benefit or burden with the potential component unit, or is fiscally depended upon by the potential component unit.

Based on these criteria, there are no organizations considered to be component units of the City.

CITY OF SCANDIA, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. BASIC FINANCIAL STATEMENTS

1. Government-Wide Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) display information about the primary government. These statements include the financial activities of the overall City government, except for fiduciary activities. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external parties for support. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's enterprise fund and various other functions of government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

In the government-wide statement of net position, both the governmental and business-type activities columns: (a) are presented on a consolidated basis by column; and (b) are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The City's net position is reported in three parts: (1) net investment in capital assets; (2) restricted net position; and (3) unrestricted net position.

The statement of activities demonstrates the degree to which the direct expenses of each function of the City's governmental activities and different business-type activities are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. Program revenues include: (1) fees, fines, and charges paid by the recipients of goods, services, or privileges provided by a given function or activity; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or activity. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

2. Fund Financial Statements

The fund financial statements provide information about the City's funds, including its fiduciary fund. Separate statements for each fund category (governmental, proprietary, and fiduciary) are presented. The emphasis of governmental and proprietary fund financial statements is on major individual governmental and enterprise funds, with each displayed as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor funds.

**CITY OF SCANDIA, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. BASIC FINANCIAL STATEMENTS (CONTINUED)

2. Fund Financial Statements (Continued)

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or incidental activities.

The City reports the following major governmental funds:

General Fund

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

2007 Debt Service Fund

The 2007 Debt Service Fund accounts for debt service payments used to finance the City's various improvement projects.

Equipment Replacement Fund

The Equipment Replacement Capital Project Fund accounts for resources to be used to purchase motor vehicles and heavy machinery.

The City reports the following major proprietary funds:

Sewer Fund

The Sewer Fund accounts for customer sewer service charges that are used to finance sewer operating expenses.

Uptown Sewer Fund

The Uptown Sewer Fund accounts for customer service charges that are used to finance uptown sewer operating expenses.

Additionally, the City reports the following fiduciary fund:

Agency Fund

To account for assets held as an agent for individuals, private organizations, other governmental units, and/or other funds. The City's agency fund accounts for pass-through contractor's deposits relating to prospective developments.

**CITY OF SCANDIA, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. The Agency fund, which is included as a Fiduciary Fund, does not have a measurement focus. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. The City considers all revenues to be available if they are collected within 60 days after the end of the current period. Property and other taxes, licenses, and interest are all considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Amounts reported as program revenues include: (1) Charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the City's enterprise fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**CITY OF SCANDIA, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. BUDGETS

Budgets are adopted on a basis consistent with U.S. generally accepted accounting principles. Annual appropriated budgets are adopted for the General Fund. Budgeted expenditure appropriations lapse at year-end.

E. CASH AND INVESTMENTS

Cash and investment balances from all funds are pooled and invested to the extent available in investments authorized by Minnesota Statutes. Earnings from investments are allocated to individual funds on the basis of the fund's equity in the cash and investment pool.

The City provides temporary advances to funds that have insufficient cash balances by means of an advance from another fund shown as interfund receivables in the advancing fund in the governmental fund financial statements, and an interfund payable in the fund with the deficit, until adequate resources are received. These interfund payables are eliminated for statement of net position presentation.

Investments are stated at fair value as of the balance sheet date. Interest earnings are accrued at the balance sheet date.

For purposes of the statement of cash flows the Proprietary Fund considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. All of the cash and investments allocated to the proprietary fund types have original maturities of 90 days or less. Therefore, the entire balance in such fund types is considered cash equivalents.

F. PROPERTY TAX CREDITS

Property taxes on homestead property (as defined by state statutes) are partially reduced by property tax credits. These credits are paid to the City by the State in lieu of taxes levied against homestead property. The State remits these credits through installments each year. These credits are recognized as revenue by the City at the time of collection.

**CITY OF SCANDIA, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. PROPERTY TAX REVENUE RECOGNITION

The City Council annually adopts a tax levy and certifies it to the County in December (levy/assessment date) of each year for collection in the following year. The County is responsible for billing and collecting all property taxes for itself, the City, the local School District and other taxing authorities. Such taxes become a lien on January 1 and are recorded as receivables by the City at that date. Real property taxes are payable (by property owners) on May 15 and October 15 of each calendar year. Personal property taxes are payable by taxpayers on February 28 and June 30 of each year. These taxes are collected by the County and remitted to the City on or before July 15 and December 15 of the same year. Delinquent collections for November and December are received the following January. The City has no ability to enforce payment of property taxes by property owners. The County possesses this authority.

Within the governmental fund financial statements, the City recognizes property tax revenue when it becomes both measurable and available to finance expenditures of the current period. In practice, current and delinquent taxes and State credits received by the City in July, December and the following January are recognized as revenue for the current year. Taxes and credits not received at the year-end are classified as delinquent and due from County taxes receivable. The portion of delinquent taxes not collected by the City in January is fully offset by deferred revenue because it is not available to finance current expenditures. Deferred revenue in governmental activities is susceptible to full accrual on the government-wide statements.

The City's property tax revenue includes payments from the Metropolitan Revenue Distribution (Fiscal Disparities Formula) per *Minnesota Statute* 473F. This statute provides a means of spreading a portion of the taxable valuation of commercial/industrial real property to various taxing authorities within the defined metropolitan area. The valuation "shared" is a portion of commercial/industrial property valuation growth since 1971. Property taxes paid to the City through this formula for 2012 totaled \$125,828. Receipt of property taxes from this "fiscal disparities pool" does not increase or decrease total tax revenue.

**CITY OF SCANDIA, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. SPECIAL ASSESSMENT REVENUE RECOGNITION

Special assessments are levied against benefited properties for the cost or a portion of the cost of special assessment improvement projects in accordance with state statutes. These assessments are collectible by the City over a term of years usually consistent with the term of the related bond issue. Collection of annual installments (including interest) is handled by the County Auditor in the same manner as property taxes. Property owners are allowed to (and often do) prepay future installments without interest or prepayment penalties.

Within the fund financial statements, the revenue from special assessments is recognized by the City when it becomes measurable and available to finance expenditures of the current fiscal period. In practice, current and delinquent special assessments received by the City are recognized as revenue for the current year. Special assessments are collected by the County and remitted by December 31 (remitted to the City the following January) and are also recognized as revenue for the current year. All remaining delinquent and deferred special assessments receivable in governmental funding are completely offset by deferred revenues. Deferred revenue in governmental activities is susceptible to full accrual on the government-wide statements.

Once a special assessment roll is adopted, the amount attributed to each parcel is a lien upon that property until full payment is made or the amount is determined to be excessive by the City Council or court action. If special assessments are allowed to go delinquent, the property is subject to tax forfeit sale and the first proceeds of that sale (after costs, penalties and expenses of sale) are remitted to the City in payment of delinquent special assessments. Generally, the City will collect the full amount of its special assessments not adjusted by the City Council or court action. Pursuant to state statutes, a property shall be subject to a tax forfeit sale after three years unless it is homesteaded, agricultural or seasonal recreational land in which event the property is subject to such sale after five years.

I. CAPITAL ASSETS

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, sidewalks, street lights, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets exceeding the City's capitalization threshold of \$5,000 are recorded at historical cost or estimated historical cost if purchased or constructed. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Infrastructure has been capitalized as of 1980 and thereafter.

**CITY OF SCANDIA, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. CAPITAL ASSETS (CONTINUED)

Depreciation on exhaustible assets is recorded as an allocated expense in the statement of activities with accumulated depreciation reflected in the statement of net position. Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are sold for an immaterial amount when declared as no longer needed for City purposes, no salvage value is taken into consideration for depreciation purposes. Useful lives vary from 3 to 30 years for buildings, equipment, vehicles, furniture and fixtures, and other improvements, and 25 to 50 years for Infrastructure. Capital assets not being depreciated include land and construction in progress.

J. COMPENSATED ABSENCES

It is the City's policy to permit employees to accumulate earned but unused leave benefits. All leave pay is accrued on a per pay period basis and recorded in the government-wide financial statements. The current portion is calculated based on historical trends.

K. LONG-TERM OBLIGATIONS

In the entity-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bond issue costs, if material, are reported as deferred charges and amortized over the term of the related debt using the straight-line method.

In the governmental fund financial statements, bond premiums and discounts, as well as bond issue costs are recognized during the current period. The face amount of the debt issue is reported as another financing source. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issue costs are reported as debt service expenditures.

CITY OF SCANDIA, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. NET POSITION

Net position represents the difference between assets and liabilities in the government-wide financial statements and are classified into three components:

- a) Net investment in capital assets – This component consists of capital assets net of accumulated depreciation and reduced by the amount of outstanding balance of bonds or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
- b) Restricted net position – Net position with constraints placed on the use either by 1) external groups such as creditors, grantors, or laws or regulations of other governments; or 2) law through constitutional provisions or enabling legislation are reflected in this component.
- c) Unrestricted net position – All other assets that do not meet the definition of “restricted” or “net investment in capital assets.”

M. FUND BALANCE

In the fund financial statements, governmental funds report fund balances in classifications that disclose constraints for which amounts in those funds can be spent. These classifications are as follows:

Nonspendable – portions of fund balance related to prepaids, inventories, long-term receivables, and corpus on any permanent fund.

Restricted – funds are constrained from outside parties (statute, grantors, bond agreements, etc).

Committed – fund constraints are established and modified by a resolution approved by the City Council.

Assigned – consists of internally imposed constraints approved by the City Council.

Unassigned – is the residual classification for the General Fund and also reflects negative residual amounts in other funds.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, it is the City’s policy to use restricted first, then unrestricted fund balance.

When an expenditure is incurred for purposes for which committed, assigned, and unassigned amounts are available, it is the City’s policy to use committed first, then assigned, and finally unassigned amounts.

The City formally adopted a fund balance policy for the General Fund. The policy establishes a year-end target fund balance range of 35% - 50% of the annual operating budget.

**CITY OF SCANDIA, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. INTERFUND TRANSACTIONS

Interfund services provided and used are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures or expenses in the fund that is reimbursed. All other interfund transactions are reported as transfers.

All interfund transactions are eliminated except for activity between governmental activities and business-type activities for presentation in the entity-wide statements of net position and statements of activities.

NOTE 2 DEPOSITS AND INVESTMENTS

A. DEPOSITS

The City maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the statement of net position and the balance sheet as "Cash and Investments." In accordance with Minnesota Statutes the City maintains deposits at financial institutions which are authorized by the City Council.

Custodial Credit Risk – Custodial credit risk for deposits is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk and follows Minnesota Statutes for deposits. Minnesota Statutes require that all deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by insurance or corporate surety bonds. Authorized collateral include: U.S. government treasury bills, notes, or bonds; issues of a U.S. government agency; general obligations of a state or local government rated "A" or better; revenue obligations of a state or local government rated "AA" or better; irrevocable standby letters of credit issued by a Federal Home Loan Bank; and time deposits insured by a federal agency. Minnesota Statutes require securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution not owned or controlled by the depository.

The carrying value and bank balance of the City's deposits in banks at December 31, 2012 is \$2,611,291 and \$2,625,179, respectively, and were entirely covered by federal depository insurance or by surety bonds and collateral in accordance with Minnesota Statutes.

CITY OF SCANDIA, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 3 CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2012 was as follows:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Governmental Activities:					
Capital Assets Not Being Depreciated:					
Land	\$ 487,735	\$ -	\$ -	\$ -	\$ 487,735
Construction in Progress	111,852	-	-	(111,852)	-
Total Capital Assets Not Being Depreciated	599,587	-	-	(111,852)	487,735
Capital Assets Being Depreciated:					
Buildings	2,232,670	-	-	-	2,232,670
Equipment	365,422	146,958	-	111,852	624,232
Vehicles	1,006,295	11,426	-	-	1,017,721
Infrastructure	9,359,242	-	-	(85,473)	9,273,769
Other Improvements	162,647	-	-	-	162,647
Total Capital Assets, Being Depreciated	13,126,276	158,384	-	26,379	13,311,039
Accumulated Depreciation for:					
Buildings	(712,584)	(48,261)	-	-	(760,845)
Equipment	(225,565)	(56,928)	-	-	(282,493)
Vehicles	(576,678)	(49,527)	-	-	(626,205)
Infrastructure	(2,734,877)	(236,084)	-	29,061	(2,941,900)
Other Improvements	(75,013)	(6,894)	-	-	(81,907)
Total Accumulated Depreciation	(4,324,717)	(397,694)	-	29,061	(4,693,350)
Total Capital Assets, Being Depreciated, Net	8,801,559	(239,310)	-	55,440	8,617,689
Governmental Activities Capital Assets, Net	<u>\$ 9,401,146</u>	<u>\$ (239,310)</u>	<u>\$ -</u>	<u>\$ (56,412)</u>	<u>\$ 9,105,424</u>
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Business-Type Activities:					
Capital Assets Being Depreciated:					
Sewer Plant	\$ 1,500,000	\$ -	\$ -	\$ -	\$ 1,500,000
Uptown Sewer	-	158,354	-	85,473	243,827
Total Capital Assets Being Depreciated	1,500,000	158,354	-	85,473	1,743,827
Less: Accumulated Depreciation	(660,000)	(34,876)	-	(29,061)	(723,937)
Net Capital Assets - Sewer Utility	<u>\$ 840,000</u>	<u>\$ 123,478</u>	<u>\$ -</u>	<u>\$ 56,412</u>	<u>\$ 1,019,890</u>

Depreciation was charged to City functions as follows:

General Government	\$ 15,760
Public Safety	45,291
Public Works	324,402
Parks and Recreation	12,241
Total Depreciation - Governmental Activities	<u>\$ 397,694</u>

CITY OF SCANDIA, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 4 CITY INDEBTEDNESS

City indebtedness at December 31, 2012 is composed of the following:

	Issue Date	Final Maturity Date	Interest Rate	Original Issue	Balance 12/31/12
Governmental Activities:					
General Obligation Debt:					
2005 Building Crossover Bonds	5/1/2005	12/1/2015	3.35-4.2%	\$ 685,000	\$ 315,000
2007 Improvement Bonds	5/1/2007	12/1/2017	3.65-4.1%	1,430,000	640,000
2010 Equipment Certificate	7/15/2010	2/1/2016	2.22-3.55%	200,000	160,000
2011 Equipment Certificate	6/30/2011	12/1/2016	2.75%-3.95%	150,000	120,000
Total Long-Term Debt				<u>2,465,000</u>	<u>1,235,000</u>
Unamortized Bond Discount				(43,090)	(19,063)
Compensated Absences				N/A	15,016
Total				<u>\$ 2,421,910</u>	<u>\$ 1,230,953</u>

The following is a schedule of changes in City indebtedness for the year ended December 31, 2012:

	Balance 1/1/12	Issued	Retired	Balance 12/31/12	Amounts Due Within One Year
Long-Term Debt:					
Governmental Activities:					
General Obligation Notes	\$ 1,540,000	\$ -	\$ (305,000)	\$ 1,235,000	\$ 305,000
Unamortized Bond Discount	(23,308)	-	4,245	(19,063)	-
Compensated Absences	19,090	22,071	(26,145)	15,016	12,355
Total Long-Term Debt	<u>\$ 1,535,782</u>	<u>\$ 22,071</u>	<u>\$ (326,900)</u>	<u>\$ 1,230,953</u>	<u>\$ 317,355</u>

All long-term bonded indebtedness outstanding at December 31, 2012 is backed by the full faith and credit of the City, including special assessment bond issues. For the governmental activities, compensated absences are generally liquidated by the General Fund.

During 2005, the City issued \$685,000 of General Obligation Building Crossover Refunding Bonds, Series 2005A for the purpose of refunding the \$1,200,000 General Obligation Building Bonds of 2000. The crossover refunding occurred on December 1, 2008.

**CITY OF SCANDIA, MINNESOTA
 NOTES TO BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2012**

NOTE 4 CITY INDEBTEDNESS (CONTINUED)

Minimum annual principal and interest payments required to retire long-term debt, not including compensated absences payable are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 305,000	\$ 47,134	\$ 352,134
2014	305,000	35,943	340,943
2015	305,000	24,198	329,198
2016	195,000	12,083	207,083
2017	125,000	5,125	130,125
Total	<u>\$ 1,235,000</u>	<u>\$ 124,483</u>	<u>\$ 1,359,483</u>

Description and Restrictions of Long-Term Debt

General Obligation Bonds – The bonds were issued for improvements or projects which benefited the City as a whole and are, therefore, repaid from ad valorem levies.

The liability for compensated absences represents vested benefits earned by governmental fund employees through the end of the year which will be paid or used in future periods.

NOTE 5 DEFINED BENEFIT PENSION PLANS – STATEWIDE

A. PLAN DESCRIPTION

All full-time and certain part-time employees of the City are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund (GERF), which is a cost-sharing, multiple-employer retirement plan. This plan is established and administered in accordance with Minnesota Statutes, Chapter 353 and 356.

GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan.

PERA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by state statute, and vest after three years of credited service. The defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

**CITY OF SCANDIA, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2012**

NOTE 5 DEFINED BENEFIT PENSION PLANS – STATEWIDE (CONTINUED)

A. PLAN DESCRIPTION (CONTINUED)

Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2% of average salary for each of the first 10 years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first 10 years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service.

For GERS members hired prior to July 1, 1989 whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 65 for Basic and Coordinated members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for Coordinated members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

There are different types of annuities available to members upon retirement. A single-life annuity is a lifetime annuity that ceases upon the death of the retiree, no survivor annuity is payable. There are also various types of joint and survivor annuity options available which will be payable over joint lives. Members may also leave their contributions in the fund upon termination of public service in order to qualify for a deferred annuity at retirement age. Refunds of contributions are available at any time to members who leave public service, but before retirement benefits begin.

The benefit provisions stated in the previous paragraphs of this section are current provisions and apply to active plan participants. 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.

PERA issues a publicly available financial report that includes financial statements and required supplementary information for GERS. That report may be obtained on the internet at www.mnpera.org, by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088 or by calling (651) 296-7460 or 1-800-652-9026.

**CITY OF SCANDIA, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2012**

NOTE 5 DEFINED BENEFIT PENSION PLANS – STATEWIDE (CONTINUED)

B. FUNDING POLICY

Minnesota Statutes, Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The City makes annual contributions to the pension plans equal to the amount required by state statutes. GERS Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.25% respectively, of their annual covered salary in 2012. The City is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan members and 7.25% for Coordinated Plan members. The City's contributions to the General Employees Retirement Fund for the years ended December 31, 2012, 2011, and 2010 were \$20,284, \$21,169, and \$20,298, respectively. The City's contributions were equal to the contractually required contributions for each year as set by state statute.

NOTE 6 DEFINED CONTRIBUTION PENSION PLAN

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

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

Total employer and employee contributions made by the City during fiscal year 2012 were \$824.

CITY OF SCANDIA, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 7 STATEWIDE VOLUNTEER FIREFIGHTER RETIREMENT PLAN

A. PLAN DESCRIPTION

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

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

PERA performs annual calculations for each Entity Account to assess the level of funding needed to maintain assets sufficient to pay the benefits being earned by the participating entity's volunteer firefighters. The calculations will resemble the procedure already defined in law for use by all existing volunteer fire relief associations. Required contributions for the coming year will be based on service credit data provided to PERA in March of each year by each participating entity's fire chief. There are no provisions that allow voluntary contributions into the Plan at this time, either from members or from municipalities.

B. RETIREMENT BENEFITS

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

To be eligible for a benefit, a firefighter must:

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

**CITY OF SCANDIA, MINNESOTA
 NOTES TO BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2012**

NOTE 7 STATEWIDE VOLUNTEER FIREFIGHTER RETIREMENT PLAN (CONTINUED)

B. RETIREMENT BENEFITS (CONTINUED)

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

Total employer contributions made during fiscal year 2012 were as follows:

City Contributions	\$	21,986
State Aid		18,258
Total		40,244

Prior to 2011, the firefighter pension benefits were held and managed by the Scandia Fire Relief Association. Upon joining the Plan, the pension trust fund of the Scandia Fire Relief Association ceased to exist as a pension fund and the legal title to the assets were contributed the Plan in the amount of \$577,244.

NOTE 8 COMMITMENTS AND CONTINGENCIES

Law Enforcement Services – The City has entered into an agreement with Washington County to receive law enforcement services for 2011 and 2012. The agreement calls for the City to pay Washington County based on the actual costs associated with providing services under the agreement. Related expenditures for fiscal year 2012 were \$116,863.

Fire Department Services Agreement – Effective January 1, 2012, the City has extended its agreement with May Township to provide fire services to the Township. The contract is for three years extending through December 31, 2014. If the contract is not renewed or extended by December 31, 2014, the contract will continue on a prorated month-to-month basis. Related revenues for the fiscal years 2012 and 2011 were \$33,551 and \$32,574, respectively. The Township will pay the City \$34,558 for 2013.

CITY OF SCANDIA, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 9 INTERFUND

Individual fund transfers for fiscal year 2012 are as follows:

	Transfer In	Transfer Out
Governmental Activity:		
General Capital Assets	\$ -	\$ 56,412
General Fund	4,569	80,000
Equipment Replacement	80,000	-
Non-Major Funds:		
Capital Improvement	-	118,766
Business-Type Activity:		
Sewer	-	2,825
Uptown Sewer	175,178	1,744
	\$ 259,747	\$ 259,747

During 2012, the City made routine transfers from the General Fund to the Equipment Replacement Fund and reimbursed the General Fund for work done on behalf of the 201 Sewer and Uptown Sewer Funds. \$56,412 of uptown sewer infrastructure (net of accumulated depreciation) was transferred from Governmental Activities Capital Assets to the new Uptown Sewer enterprise fund effective January 1, 2012.

Additionally, the cost of the Uptown Sewer Improvement Project was funded by the Capital Improvement Fund through an operating transfer of \$118,766 and an interfund loan that represented 25% of the total cost of the project. The cost of this loan is to be recovered through an increased Uptown Sewer usage rate over the next 10 years, and will be repaid to the Capital Improvement fund over this period through annual payments of \$2,639.

	Interfund Receivable	Interfund Payable
Governmental Activity:		
Capital Improvement	\$ 39,588	\$ -
Business-Type Activity:		
Uptown Sewer	-	39,588
	\$ 39,588	\$ 39,588

**CITY OF SCANDIA, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2012**

NOTE 10 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.

The City has entered into a joint powers agreement with the League of Minnesota Cities Insurance Trust (LMCIT) to protect the City in the event of a loss. The LMCIT is a public entity risk pool currently operating as a common risk management and insurance program for Minnesota cities. The agreement for formation of the LMCIT provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of reserved amounts for each insured event. The pool can make additional assessments to make the pool self-sustaining. The City has determined that it is not possible to estimate the amount of such additional assessments, if any; however, they are not expected to be material to these financial statements. There have been no significant reductions in insurance coverage during 2012 and settlements have not exceeded insurance coverage for any of the past three fiscal years.

The City has entered into a joint powers agreement with the Southwest/West Central Services Cooperative (SC) to provide group employee benefits for their employees and to obtain other financial and risk management services. The SC is a public entity which operates the health insurance pool through which the City purchases employee health insurance. The joint powers agreement provides that the SC will establish, procure, and administer group employee benefits, including selecting providers, in exchange for a service fee determined by the City's contract. The agreement is renewed annually and the City may withdraw from the agreement at any time during the year upon 90 days written notice to the board and all providers of the program.

**REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON INFORMATION**

CITY OF SCANDIA, MINNESOTA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED DECEMBER 31, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Property Taxes	\$ 1,596,008	\$ 1,596,008	\$ 1,601,201	\$ 5,193
Intergovernmental:				
State Aid Credits	13,062	13,062	42,569	29,507
Recycling Grant	7,235	7,235	7,235	-
Other Grants	5,000	5,000	1,395	(3,605)
Total Intergovernmental Revenues	25,297	25,297	51,199	25,902
Licenses and Permits	53,830	53,830	54,657	827
Fines and Forfeits	19,000	19,000	17,818	(1,182)
Charges for Services:				
Zoning and Hearing Fees	88,370	88,370	193,396	105,026
Fire Protection	33,551	33,551	33,551	-
Cable Franchise	6,800	6,800	7,223	423
Total Charges for Services	128,721	128,721	234,170	105,449
Miscellaneous:				
Interest	10,174	10,174	7,023	(3,151)
Donations and Other	3,650	3,650	28,889	25,239
Total Miscellaneous	13,824	13,824	35,912	22,088
Total Revenues	1,836,680	1,836,680	1,994,957	158,277
EXPENDITURES				
General Government:				
Administration and Finance	356,686	363,986	389,764	25,778
City Council	18,839	17,839	17,949	110
Elections	5,370	5,370	6,035	665
Planning and Building	149,058	149,058	295,217	146,159
Capital Outlay	2,500	2,500	1,946	(554)
Total General Government	532,453	538,753	710,911	172,158
Public Safety:				
Police	117,060	116,560	117,172	612
Fire	245,839	242,339	221,059	(21,280)
Capital Outlay	5,000	9,000	8,980	(20)
Total Public Safety	367,899	367,899	347,211	(20,688)

CITY OF SCANDIA, MINNESOTA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (CONTINUED)
GENERAL FUND
YEAR ENDED DECEMBER 31, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
EXPENDITURES (CONTINUED)				
Public Works:				
Public Works	\$ 724,387	\$ 701,211	\$ 636,322	\$ (64,889)
Capital Outlay	44,394	67,394	63,479	(3,915)
Total Public Works	<u>768,781</u>	<u>768,605</u>	<u>699,801</u>	<u>(68,804)</u>
Parks and Recreation:				
Parks	48,498	48,498	45,259	(3,239)
Community Center	2,484	41,770	37,067	(4,703)
Capital Outlay	41,770	2,484	2,400	(84)
Total Parks and Recreation	<u>92,752</u>	<u>92,752</u>	<u>84,726</u>	<u>(8,026)</u>
Fixed and Other:				
Donations	-	1,000	1,000	-
Total Expenditures	<u>1,761,885</u>	<u>1,769,009</u>	<u>1,843,649</u>	<u>74,640</u>
Revenues in Excess of Expenditures	74,795	67,671	151,308	83,637
OTHER FINANCING SOURCES (USES)				
Transfers In	5,341	5,341	4,569	(772)
Transfers Out	<u>(80,001)</u>	<u>(80,001)</u>	<u>(80,000)</u>	<u>(1)</u>
Total Other Financing Uses	<u>(74,660)</u>	<u>(74,660)</u>	<u>(75,431)</u>	<u>(773)</u>
NET CHANGE IN FUND BALANCE	<u>\$ 135</u>	<u>\$ (6,989)</u>	75,877	<u>\$ 82,864</u>
Fund Balance - Beginning of Year			<u>1,253,676</u>	
FUND BALANCE - END OF YEAR			<u>\$ 1,329,553</u>	

**CITY OF SCANDIA, MINNESOTA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED DECEMBER 31, 2012**

STEWARDSHIP COMPLIANCE AND ACCOUNTABILITY - BUDGETS

The General Fund budget is legally adopted on a basis consistent with U.S. generally accepted accounting principles. Actual expenditures exceeded budgets during 2012 as follows:

	<u>Final Budget</u>	<u>Actual</u>	<u>Excess</u>
General Fund			
General Government:			
Administration and Finance	\$ 363,986	\$ 389,764	\$ (25,778)
City Council	17,839	17,949	(110)
Elections	5,370	6,035	(665)
Planning and Building	149,058	295,217	(146,159)
Public Safety:			
Police	116,560	117,172	(612)

COMBINING FUND FINANCIAL STATEMENTS

**CITY OF SCANDIA, MINNESOTA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2012**

	Debt Service		Capital Projects		Total Nonmajor Funds
	2000 Fire Hall Bond Fund	Equipment Certificates	Capital Improvement	Park Capital Improvement	
ASSETS					
Cash and Investments	\$ 183,322	\$ 44,599	\$ 177,568	\$ 9,406	\$ 414,895
Taxes Receivable	6	-	2	-	8
Advance to other funds	-	-	39,588	-	39,588
	\$ 183,328	\$ 44,599	\$ 217,158	\$ 9,406	\$ 454,491
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Deferred Revenue	\$ 6	\$ -	\$ 2	\$ -	\$ 8
FUND BALANCES					
Nonspendable	-	-	39,588	-	39,588
Restricted for Debt Service	183,322	44,599	-	-	227,921
Assigned for:					
Infrastructure Improvement Projects	-	-	177,568	-	177,568
Acquisition and Development of Parks	-	-	-	9,406	9,406
Unassigned	-	-	-	-	-
	183,322	44,599	217,156	9,406	454,483
Total Fund Balance	\$ 183,322	\$ 44,599	\$ 217,158	\$ 9,406	\$ 454,491
Total Liabilities and Fund Balances	\$ 183,328	\$ 44,599	\$ 217,158	\$ 9,406	\$ 454,491

**CITY OF SCANDIA, MINNESOTA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCE
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED DECEMBER 31, 2012**

	Debt Service		Capital Projects		Total Nonmajor Funds
	2000 Fire Hall Bond Fund	Equipment Certificates	Capital Improvement	Park Capital Improvement	
REVENUES					
Taxes	\$ 120,822	\$ 83,942	\$ 107,611	\$ -	\$ 312,375
Miscellaneous Revenues	707	171	906	44	1,828
Total Revenues	<u>121,529</u>	<u>84,113</u>	<u>108,517</u>	<u>44</u>	<u>314,203</u>
EXPENDITURES					
Debt Service:					
Principal Payments	100,000	70,000	-	-	170,000
Interest Payments	16,675	12,532	-	-	29,207
Capital Outlay	-	-	-	3,574	3,574
Total Expenditures	<u>116,675</u>	<u>82,532</u>	<u>-</u>	<u>3,574</u>	<u>202,781</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	4,854	1,581	108,517	(3,530)	111,422
OTHER FINANCING USES					
Transfers Out	-	-	(118,766)	-	(118,766)
NET CHANGE IN FUND BALANCES	4,854	1,581	(10,249)	(3,530)	(7,344)
Fund Balance - Beginning of Year	<u>178,468</u>	<u>43,018</u>	<u>227,405</u>	<u>12,936</u>	<u>461,827</u>
FUND BALANCE - END OF YEAR	<u>\$ 183,322</u>	<u>\$ 44,599</u>	<u>\$ 217,156</u>	<u>\$ 9,406</u>	<u>\$ 454,483</u>

CITY OF SCANDIA, MINNESOTA
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES – FIDUCIARY FUND
YEAR ENDED DECEMBER 31, 2012

	Balance January 1, 2012	Additions	Deductions	Balance December 31, 2012
ASSETS				
CURRENT ASSETS				
Cash and Investments	<u>\$ 117,788</u>	<u>\$ 206,801</u>	<u>\$ 152,242</u>	<u>\$ 172,347</u>
 LIABILITIES				
CURRENT LIABILITIES				
Contractor Deposits	<u>\$ 117,788</u>	<u>\$ 206,801</u>	<u>\$ 152,242</u>	<u>\$ 172,347</u>

III.

OTHER REQUIRED REPORTS



CliftonLarsonAllen

CliftonLarsonAllen LLP
www.cliftonlarsonallen.com

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

Honorable Mayor and
Members of the City Council and Citizens
City of Scandia, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, the accompanying 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, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated May 6, 2013.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions* covers seven main categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous City provisions, and tax increment financing districts. Our study included all of the listed categories except for tax increment financing districts because the City has no tax increment financing districts.

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

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
May 6, 2013



**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**

Honorable Mayor and
Members of the 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, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated May 6, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City'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.

Our consideration of the 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 below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 City's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described below to be material weaknesses.

Honorable Mayor and
Members of the City Council
City of Scandia, Minnesota

Limited Segregation of Duties

Condition: Due to the City's limited number of office personnel, segregation of the accounting functions that is necessary to ensure adequate internal accounting control may not be possible. This is not unusual in an operation the size of the City; however, the City Council should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an accounting point of view.

Criteria: Generally, a system of internal control contemplates separation of duties such that no individual has responsibility to execute a transaction, have physical access to the related assets, and have responsibility or authority to record the transaction.

Effect: The City is unable to maintain segregation of incompatible duties.

Cause: Limited number of personnel involved in the finance office.

Recommendation: This area should be reviewed periodically and consideration given to improving the segregation of duties. In making this review, it is most important to consider the benefit derived as weighed against the cost of the improvements. Management feels it is currently not economically feasible for the City to hire additional staff in order to adequately segregate all incompatible duties. Therefore, the City Council needs to be sufficiently involved in the oversight process and controls and responsibilities should be reviewed periodically.

Management Response:

Management has decided, due to the small size of the City's staff, that the additional costs of implementing the necessary controls outweigh the benefits that would be derived.

Material Audit Adjustments - Internal Control over the Financial Reporting Process

Condition: The audit firm proposed, and the City posted to its general ledger accounts, 24 journal entries to correct misstatements. These entries relate to internal controls over the year-end close-out process. The absence of a complete control procedure or process in this area is considered a material weakness because the potential exists that a material misstatement of the financial statements could occur and not be prevented or detected by the City's internal control processes.

Criteria: The City should have controls in place to prevent and detect a material misstatement in the financial statements in a timely manner. Management is responsible for the accuracy and completeness of all financial records and related information. Their responsibilities include adjusting the financial statements to correct material misstatements.

Effect: Significant audit adjustments were required to bring the financial statements into accordance with U.S. generally accepted accounting principles (GAAP).

Cause: The City has not established controls to ensure that all accounts are adjusted to their appropriate year-end balances in accordance with GAAP.

Recommendation: We recommend the City continue to evaluate its internal control processes to determine if additional internal control procedures should be implemented to ensure that accounts are adjusted to their appropriate year-end balances in accordance with GAAP.

Honorable Mayor and
Members of the City Council
City of Scandia, Minnesota

Management Response:

The amount of journal entries related to the year-end close-out process is reasonable for a city of our size. The City relies on the audit firm to assist in adjusting accounts to their appropriate year-end balances in accordance with GAAP as well as prepare the annual financial statements. Management has decided this is necessary due to the small size of the city staff, its level of expertise and assigned duties. The additional cost of bringing in more staff outweighs the benefits that would be derived.

Oversight of the Financial Reporting Process

Condition: The City does not have an internal control policy in place over annual financial reporting under GAAP, therefore, the potential exists that a material misstatement of the annual financial statements could occur and not be prevented or detected by the City's internal controls.

Criteria: The City must be able to prevent or detect a material misstatement in the annual financial statements, including footnote disclosures.

Effect: Departures from GAAP would not necessarily be detected by management.

Cause: The City relies on the audit firm to prepare the annual financial statements and related footnote disclosures. However, they have reviewed and approved the annual financial statements and related footnote disclosures.

Recommendation: The City should continue to evaluate their internal staff, expertise, and assigned duties to determine if an internal control policy over the annual financial reporting is beneficial.

Management Response:

The City's internal staff does not have the resources to provide internal control over the annual financial reporting under GAAP. However, annual financial statements are closely reviewed and discussed with the audit firm. The City relies on the audit firm to prepare annual financial statements. The additional cost of providing internal annual financial reporting outweighs the benefits that would be derived.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of 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*.

The City's Response to Findings

The City's written responses to the findings identified in our audit have not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Honorable Mayor and
Members of the City Council
City of Scandia, Minnesota

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 result 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.



CliftonLarsonAllen LLP

Minneapolis, Minnesota
May 6, 2013