

**CITY OF SCANDIA, MINNESOTA**  
**AUDITED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013**

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

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

**CITY OF SCANDIA, MINNESOTA  
CITY COUNCIL AND OFFICIALS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

**CITY COUNCIL**

Term Expires

Randall Simonson	Mayor	January 1, 2015
Dan Lee	Council Member	January 1, 2017
Chris Ness	Council Member	January 1, 2017
Jim Schneider	Council Member	January 1, 2015
Sally Swanson	Council Member	January 1, 2015

**CITY OFFICIALS**

Kristina Handt	City Administrator
Colleen Firkus	Treasurer

**FINANCIAL  
SECTION**

## INDEPENDENT AUDITORS' REPORT

April 8, 2014

Honorable Mayor and City Council  
City of Scandia  
Scandia, Minnesota

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Scandia, Minnesota, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Scandia, Minnesota, as of December 31, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

*An Independently Owned Member, McGladrey Alliance*

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320.632.6311

#### Albany

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P.O. Box 268  
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#### Maple Lake

220 Hwy. 55 North, Ste. 4  
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Maple Lake, MN 55358  
320.963.5414

#### Monticello

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P.O. Box 755  
Monticello, MN 55362  
763.295.5070

## **Emphasis of Matter**

### *Change in Accounting Principle*

As discussed in I.G. to the financial statements, the City of Scandia, Minnesota has adopted Government Accounting Standards Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and Government Accounting Standards Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinions are not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information as shown 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 introductory section, combining and individual nonmajor fund financial statements, and supplementary combining debt service fund schedules are presented for the purposes of additional analysis and are not a required part of the basic financial statements.

The introductory section, combining and individual nonmajor fund financial statements, and supplementary combining debt service fund schedules have not been subject to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated April 8, 2014 on our consideration of the City of Scandia's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Scandia's internal control over financial reporting and compliance.

## **Report on Other Legal and Regulatory Requirements**

In accordance with Minnesota Statutes, we have also issued our report dated April 8, 2014, on our consideration of City of Scandia's compliance with provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minnesota Statute Section 6.65. The purpose of the report is to determine if the City has complied with Minnesota laws and regulations. That report is an integral part of an audit performed in the State of Minnesota.



**SCHLENNER WENNER & CO.**  
St. Cloud, Minnesota

**REQUIRED SUPPLEMENTARY  
INFORMATION**

**CITY OF SCANDIA, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2013**

Our discussion and analysis of the City of Scandia's financial performance provides an overview of the City's financial activities for the year ended December 31, 2013. Please read it in conjunction with the independent auditor's report on page two and the City's financial statements, which begin on page eleven.

**FINANCIAL HIGHLIGHTS**

- During the current year, the City adopted accounting principles discussed in further detail in Notes 1.G. and 4.F in the Notes to the Basic Financial Statements.
- The City's net position increased \$406,988 compared to the prior year as a result of this year's operations.
- In the City's business-type activities, revenues increased approximately \$16,561 (or 19.22 percent) while operating expenses decreased \$41,885 (or 29.16 percent).
- Total cost of all of the City's programs decreased \$47,341 (or 1.99 percent).
- The City's general fund generated more revenue than budgeted of \$221,081 excluding transfers. Expenditures were less than budgeted by \$27,062, including transfers to other funds which equaled budgeted amounts.

**USING THIS ANNUAL REPORT**

This annual report consists of series of financial statements. The Statement of Net Position and the Statement of Activities (on pages eleven and twelve) provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements start on page thirteen. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. The remaining statements provide financial information about activities for which the City acts solely as an agent for the benefit of those outside of the government.

**Reporting the City as a Whole**

Our analysis of the City as a whole begins on the following page. One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's net position and changes net position. You can think of the City's net position (the difference between assets and liabilities) as one way to measure the City's financial health, or financial position. Over time, increases or decreases in the City's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the City's property tax base and the condition of the City's roads, to assess the overall health of the City.

In the Statement of Net Position and the Statement of Activities, we divide the City into two kinds of activities:

- **Governmental Activities** – Most of the City's basic services are reported here, including law enforcement, fire, public works, parks departments, and general administration. Property taxes, special assessments, licenses, permits and fees, and state aids finance most of these activities.
- **Business-type Activities** – The City charges a fee to customers to help it cover all or most of the cost of certain services it provides. The City's 201 sewer and uptown sewer systems are reported here.

**CITY OF SCANDIA, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2013**

**USING THIS ANNUAL REPORT (Continued)**

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

Our analysis of the City's major funds begins on page seven. The fund financial statements begin on page thirteen and provide detailed information about the most significant funds-not the City as a whole. Some funds are required to be established by State law and by bond covenants. However, the City Council may establish other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The City's three kinds of funds (governmental, proprietary, and fiduciary) use different accounting approaches.

- **Governmental Funds** – Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in reconciliations following the fund financial statements.
- **Proprietary Funds** – When the City charges customers for the services it provides these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, the City's enterprise funds are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds.
- **Fiduciary Fund** – This fund is used to account for resources held for the benefit of parties outside of the City. Accounting for fiduciary funds is much like that used for proprietary funds.

**THE CITY AS A WHOLE**

The City's combined net position increased \$406,988 from a year ago. Our analysis below focuses on the net position (Table 1) and changes in net position (Table 2) of the City's governmental and business-type activities.

**Table 1  
Net Position**

	Governmental Activities		Business-Type Activities		Total Government	
	2013	2012 (Restated)	2013	2012	2013	2012 (Restated)
Current & Other Assets	\$ 3,071,252	\$ 2,593,730	\$ 153,969	\$ 145,792	\$ 3,225,221	\$ 2,739,522
Net Capital Assets	<u>9,143,882</u>	<u>9,105,424</u>	<u>985,013</u>	<u>1,019,890</u>	<u>10,128,895</u>	<u>10,125,314</u>
Total Assets	12,215,134	11,699,154	1,138,982	1,165,682	13,354,116	12,864,836
Current & Other Liabilities	191,862	178,938	1,611	22,243	193,473	201,181
Long-Term Debt Outstanding	<u>1,325,000</u>	<u>1,235,000</u>	-	-	<u>1,325,000</u>	<u>1,235,000</u>
Total Liabilities	1,516,862	1,413,938	1,611	22,243	1,518,473	1,436,181
Net Position:						
Net Investment in						
Capital Assets	7,818,882	7,870,424	985,013	1,019,890	8,803,895	8,890,314
Restricted	767,135	715,958	-	-	767,135	715,958
Unrestricted	<u>2,112,255</u>	<u>1,698,834</u>	<u>152,358</u>	<u>123,549</u>	<u>2,264,613</u>	<u>1,822,383</u>
Total Net Position	<u>\$ 10,698,272</u>	<u>\$ 10,285,216</u>	<u>\$ 1,137,371</u>	<u>\$ 1,143,439</u>	<u>\$ 11,835,643</u>	<u>\$ 11,428,655</u>

**CITY OF SCANDIA, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2013**

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

The net position of the City's governmental activities increased by \$413,056 (or 4.00 percent). Unrestricted net position (the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements) increased by \$413,421 (or 24.34 percent) compared to the prior year.

The net position of the City's business-type activities decreased by \$6,068 (or 0.53 percent). Operations were comparable to the prior year.

**Table 2  
Changes in Net Position**

	Governmental Activities		Business-Type Activities		Total Government	
	2013	2012 (Restated)	2013	2012	2013	2012 (Restated)
<b>REVENUE</b>						
Charges for Services	\$ 342,339	\$ 342,434	\$ 99,165	\$ 80,275	\$ 441,504	\$ 422,709
Grants and Contributions	42,817	32,510	3,055	5,151	45,872	37,661
Taxes	2,193,758	2,073,163	-	-	2,193,758	2,073,163
Intergovernmental	20,221	18,918	-	-	20,221	18,918
Investment Income	8,176	10,878	490	723	8,666	11,601
Other	28,594	-	-	-	28,594	-
<b>Total Revenues</b>	<b>2,635,905</b>	<b>2,477,903</b>	<b>102,710</b>	<b>86,149</b>	<b>2,738,615</b>	<b>2,564,052</b>
<b>PROGRAM EXPENSES</b>						
General Government	584,423	736,560	-	-	584,423	736,560
Public Safety	409,771	383,522	-	-	409,771	383,522
Public Works	1,060,120	960,724	-	-	1,060,120	960,724
Parks and Recreation	109,884	95,567	-	-	109,884	95,567
Debt Service	65,693	58,974	-	-	65,693	58,974
201 Sewer	-	-	87,769	126,143	87,769	126,143
Uptown Sewer	-	-	13,967	17,478	13,967	17,478
<b>Total Expenses</b>	<b>2,229,891</b>	<b>2,235,347</b>	<b>101,736</b>	<b>143,621</b>	<b>2,331,627</b>	<b>2,378,968</b>
Transfers	7,042	(170,609)	(7,042)	170,609	-	-
<b>Change in Net Position</b>	<b>\$ 413,056</b>	<b>\$ 71,947</b>	<b>\$ (6,068)</b>	<b>\$ 113,137</b>	<b>\$ 406,988</b>	<b>\$ 185,084</b>

The City's total revenues increased by \$174,563 (or 6.81 percent), largely due to increased property taxes and an increase in revenues from charges for planning and zoning services. The total cost of all programs and services decreased by \$47,341 (or 1.99 percent). Our analysis below separately considers the operations of governmental and business-type activities.

**CITY OF SCANDIA, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2013**

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

**Governmental Activities**

Revenue for the City's governmental activities increased by \$158,002 (or 6.38 percent), while total expenses decreased \$5,456 (or 0.24 percent). Revenues and expenses were generally consistent year to year, with the exception of decreased expenses for general government expenses, offset by an increase in public works expenses in the current year.

Table 3 presents the cost of each of the City's programs (general government, public safety, public works, parks and recreation and debt service) as well as each program's net cost (total cost less revenues generated by the activities). The net cost shows the financial burden that was placed on the City's taxpayers by each of these functions. Activities, net of capital outlay which is excluded from Table 3, were generally comparable to the prior year as operations remained fairly consistent with the prior year with the exception of the fluctuations in expenses for general government and public works previously mentioned.

**Table 3  
Governmental Activities**

	Total Cost of Services		Net Cost of Services	
	2013	2012 (Restated)	2013	2012 (Restated)
General Government	\$ 584,423	\$ 736,560	\$ 307,960	\$ 475,913
Public Safety	409,771	383,522	341,601	324,590
Public Works	1,060,120	960,724	1,050,400	952,351
Parks and Recreation	109,884	95,567	88,286	55,798
Debt Service	65,693	58,974	56,488	51,751
Totals	<u>\$ 2,229,891</u>	<u>\$ 2,235,347</u>	<u>\$ 1,844,735</u>	<u>\$ 1,860,403</u>

**Business-type Activities**

Revenues of the City's business-type activities (see Table 2) increased by \$16,561 (or 19.22 percent) due to increased revenues from charges for services. Expenses decreased by \$41,885 (or 29.16 percent), primarily due to decreased repairs and maintenance costs.

**THE CITY'S FUNDS**

**Governmental Funds**

As the City completed the year, its governmental funds (as presented in the balance sheet on page thirteen) reported a combined fund balance of \$2,735,964. This is an increase of \$488,539 (or 21.74 percent) from the prior year. Operations were comparable to the prior year, with the exception of the issuance of the 2013 equipment certificates and capital outlay expenditures incurred for a pumper truck and various other acquisitions. Financial information specific to the governmental funds is detailed in Table 4. Such information was derived from the fund financials at pages thirteen and fifteen.

**CITY OF SCANDIA, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2013**

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

**Governmental Funds (Continued)**

**Table 4  
General, Special Revenue, Debt Service, and Capital Project Funds  
Information Based on Fund Financials**

	General Fund		Debt Service Fund	
	2013	2012	2013	2012
Total Assets	\$ 1,819,453	\$ 1,547,052	\$ 446,826	\$ 597,721
Total Liabilities	\$ 163,323	\$ 155,944	\$ -	\$ -
Deferred Inflows of Resources	\$ 61,715	\$ 61,555	\$ 109,150	\$ 128,804
Total Revenues	\$ 2,163,395	\$ 1,994,957	\$ 390,852	\$ 385,703
Total Expenditures	\$ 1,805,675	\$ 1,843,649	\$ 547,639	\$ 365,057
Capital Outlay Included in Total Expenditures	\$ 63,871	\$ 76,805	\$ -	\$ -
Proceeds on Sale of Asset	\$ -	\$ -	\$ -	\$ -
Net Transfers	\$ (92,858)	\$ (75,431)	\$ (544,454)	\$ -
	Capital Projects Funds		Total Governmental Funds	
	2013	2012	2013	2012
Total Assets	\$ 804,973	\$ 448,957	\$ 3,071,252	\$ 2,593,730
Total Liabilities	\$ 1,100	\$ 2	\$ 164,423	\$ 155,946
Deferred Inflows of Resources	\$ -	\$ -	\$ 170,865	\$ 190,359
Total Revenues	\$ 92,679	\$ 109,674	\$ 2,646,926	\$ 2,490,334
Total Expenditures	\$ 388,020	\$ 97,488	\$ 2,741,334	\$ 2,306,194
Debt Service Included in Total Expenditures	\$ -	\$ -	\$ 547,639	\$ 365,057
Capital Outlay Included in Total Expenditures	\$ 386,570	\$ 97,488	\$ 450,441	\$ 174,293
Bond Proceeds	\$ -	\$ -	\$ 570,000	\$ -
Net Transfers	\$ 644,354	\$ (38,766)	\$ 7,042	\$ (114,197)

**General Fund Budgetary Highlights**

The City's general fund generated more revenue than budgeted of \$221,081, excluding transfers in from other funds. Expenditures were less than those budgeted by \$27,062. Increased revenues over budget in the current year are primarily due to increased revenue from charges for services, licenses, permits, and fees.

**CITY OF SCANDIA, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2013**

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

**Proprietary Funds**

Financial information specific to the proprietary funds is detailed in Table 5. Such information was derived from the fund financials at pages seventeen and eighteen.

**Table 5  
Proprietary Fund Information Based on Fund Financials**

	201 Sewer Fund		Uptown Sewer Fund	
	2013	2012	2013	2012
Total Assets	\$ 972,196	\$ 993,651	\$ 207,114	\$ 212,255
Total Liabilities	\$ 1,136	\$ 15,747	\$ 40,803	\$ 46,720
Total Revenues	\$ 83,897	\$ 76,570	\$ 18,813	\$ 9,579
Total Expenditures	\$ 87,769	\$ 126,143	\$ 13,967	\$ 17,478
Net Transfers	\$ (2,972)	\$ (2,825)	\$ (4,070)	\$ 173,434
Change in Net Position	\$ (6,844)	\$ (52,398)	\$ 776	\$ 165,535
Total				
Proprietary Funds				
	2013	2012		
Total Assets	\$ 1,179,310	\$ 1,205,906		
Total Liabilities	\$ 41,939	\$ 62,467		
Total Revenues	\$ 102,710	\$ 86,149		
Total Expenditures	\$ 101,736	\$ 143,621		
Net Transfers	\$ (7,042)	\$ 170,609		
Change in Net Position	\$ (6,068)	\$ 113,137		

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

At the end of 2013, the City had \$10,128,895 invested in a broad range of capital assets, including land, buildings, equipment and vehicles, infrastructure, improvements, and sewer systems. This amount represents a net increase of approximately \$3,581 (or 0.04 percent) over last year.

**CITY OF SCANDIA, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2013**

**CAPITAL ASSET AND DEBT ADMINISTRATION (Continued)**

**Capital Assets (Continued)**

**Table 6  
Net Capital Assets at Year-End**

	Governmental Activities		Business-Type Activities		Totals	
	2013	2012	2013	2012	2013	2012
Land	\$ 487,735	\$ 487,735	\$ -	\$ -	\$ 487,735	\$ 487,735
Construction in Progress	25,761	-	-	-	25,761	-
Buildings	1,423,564	1,471,825	-	-	1,423,564	1,471,825
Equipment and Vehicles	1,037,192	733,255	-	-	1,037,192	733,255
Infrastructure	6,095,784	6,331,868	-	-	6,095,784	6,331,868
Other Improvements	73,846	80,741	-	-	73,846	80,741
201 Sewer System	-	-	780,000	810,000	780,000	810,000
Uptown Sewer	-	-	205,013	209,890	205,013	209,890
<b>Totals</b>	<b>\$ 9,143,882</b>	<b>\$ 9,105,424</b>	<b>\$ 985,013</b>	<b>\$ 1,019,890</b>	<b>\$ 10,128,895</b>	<b>\$ 10,125,314</b>

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

**Debt**

At year-end, the City had \$1,325,000 in debt versus \$1,235,000 last year (an increase of 7.29 percent), as shown in Table 7.

**Table 7  
Outstanding Debt at Year-End**

	Governmental Activities		Business-Type Activities		Totals	
	2013	2012 (Restated)	2013	2012	2013	2012 (Restated)
General Obligation Debt	\$ 1,325,000	\$ 1,235,000	\$ -	\$ -	\$ 1,325,000	\$ 1,235,000

The City issued general obligation equipment certificates during the current year. See additional information at Note 3.C. to the financial statements.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The City's elected and appointed officials considered many factors when setting the year 2014 budget, such as tax rates and fees that will be charged for the business-type activities. For the first time in recent history, the Council elected to maintain the same tax levy as the prior year. Also, the Council elected to make no changes to the 2014 sewer rates and only a modest increase for the Uptown Wastewater System Users. The Council expects operations in 2014 to remain fairly consistent with those of 2013. Overall budget amounts for 2014 are consistent with 2013's budget and operations.

**CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

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

## **BASIC FINANCIAL STATEMENTS**

The basic financial statements include integrated sets of financial statements as required by the GASB. The sets of statements include:

- Government-wide financial statements
- Fund financial statements:
  - Governmental funds
  - Proprietary (enterprise) funds
  - Fiduciary Fund

In addition, the notes to the financial statements are included to provide information that is essential to a user's understanding of the basic financial statements.

**CITY OF SCANDIA, MINNESOTA  
STATEMENT OF NET POSITION  
DECEMBER 31, 2013**

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 2,785,982	\$ 175,550	\$ 2,961,532
Property Taxes Receivable	94,139	-	94,139
Assessments Receivable	109,150	4,686	113,836
Accounts Receivable	31,641	14,061	45,702
Prepays	2,962	-	2,962
Inventory	7,050	-	7,050
Internal Balances	40,328	(40,328)	-
Capital Assets:			
Capital Assets not Being Depreciated	513,496	-	513,496
Capital Assets Being Depreciated (Net)	8,630,386	985,013	9,615,399
<b>TOTAL ASSETS</b>	<b>12,215,134</b>	<b>1,138,982</b>	<b>13,354,116</b>
<b>LIABILITIES</b>			
Accounts Payable	145,406	1,611	147,017
Accrued Payroll, Taxes, and Benefits	18,382	-	18,382
Accrued Interest	3,462	-	3,462
Unearned Revenue	635	-	635
Noncurrent Liabilities:			
Compensated Absences	23,977	-	23,977
Debt Due Within One Year	290,000	-	290,000
Debt Due After One Year	1,035,000	-	1,035,000
<b>TOTAL LIABILITIES</b>	<b>1,516,862</b>	<b>1,611</b>	<b>1,518,473</b>
<b>NET POSITION</b>			
Net Investment in Capital Assets	7,818,882	985,013	8,803,895
Restricted	767,135	-	767,135
Unrestricted	2,112,255	152,358	2,264,613
<b>TOTAL NET POSITION</b>	<b>\$ 10,698,272</b>	<b>\$ 1,137,371</b>	<b>\$ 11,835,643</b>

**CITY OF SCANDIA, MINNESOTA  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2013**

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-Type Activities	
<b>Governmental Activities:</b>							
General Government	\$ 584,423	\$ 276,463	\$ -	\$ -	\$ (307,960)	\$ -	\$ (307,960)
Public Safety	409,771	34,558	33,612	-	(341,601)	-	(341,601)
Public Works	1,060,120	9,720	-	-	(1,050,400)	-	(1,050,400)
Parks and Recreation	109,884	21,598	-	-	(88,286)	-	(88,286)
Debt Service	65,693	-	-	9,205	(56,488)	-	(56,488)
<b>Total Governmental Activities</b>	<b>2,229,891</b>	<b>342,339</b>	<b>33,612</b>	<b>9,205</b>	<b>(1,844,735)</b>	<b>-</b>	<b>(1,844,735)</b>
<b>Business-Type Activities:</b>							
201 Sewer	87,769	80,352	-	3,055	-	(4,362)	(4,362)
Uptown Sewer	13,967	18,813	-	-	-	4,846	4,846
<b>Total Business-Type Activities</b>	<b>101,736</b>	<b>99,165</b>	<b>-</b>	<b>3,055</b>	<b>-</b>	<b>484</b>	<b>484</b>
<b>TOTALS</b>	<b>\$ 2,331,627</b>	<b>\$ 441,504</b>	<b>\$ 33,612</b>	<b>\$ 12,260</b>	<b>(1,844,735)</b>	<b>484</b>	<b>(1,844,251)</b>
<b>General Revenues:</b>							
Taxes					2,193,758	-	2,193,758
Intergovernmental					20,221	-	20,221
Investment Income					8,176	490	8,666
Miscellaneous					22,689	-	22,689
Gain on Disposal of Assets					5,905	-	5,905
Transfers					7,042	(7,042)	-
<b>Total General Revenues and Transfers</b>					<b>2,257,791</b>	<b>(6,552)</b>	<b>2,251,239</b>
<b>CHANGE IN NET POSITION</b>					<b>413,056</b>	<b>(6,068)</b>	<b>406,988</b>
<b>NET POSITION-BEGINNING OF YEAR</b>					<b>10,314,870</b>	<b>1,143,439</b>	<b>11,458,309</b>
<b>CHANGE IN ACCOUNTING PRINCIPLE</b>					<b>(29,654)</b>	<b>-</b>	<b>(29,654)</b>
<b>NET POSITION-END OF YEAR</b>					<b>\$ 10,698,272</b>	<b>\$ 1,137,371</b>	<b>\$ 11,835,643</b>

**CITY OF SCANDIA, MINNESOTA  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2013**

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Equipment Replacement Fund</u>	<u>Total Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>					
Cash and Cash Equivalents	\$ 1,680,281	\$ 337,676	\$ 528,358	\$ 239,667	\$ 2,785,982
Property Taxes Receivable	94,139	-	-	-	94,139
Assessments Receivable	-	109,150	-	-	109,150
Accounts Receivable	31,641	-	-	-	31,641
Prepays	2,962	-	-	-	2,962
Inventory	7,050	-	-	-	7,050
Due from Other Fund	3,380	-	-	-	3,380
Advance to Other Fund	-	-	-	36,948	36,948
<b>TOTAL ASSETS</b>	<u>\$ 1,819,453</u>	<u>\$ 446,826</u>	<u>\$ 528,358</u>	<u>\$ 276,615</u>	<u>\$ 3,071,252</u>
<b>LIABILITIES</b>					
Accounts Payable	\$ 144,306	\$ -	\$ -	\$ 1,100	\$ 145,406
Accrued Payroll, Taxes, and Benefits	18,382	-	-	-	18,382
Unearned Revenue	635	-	-	-	635
<b>Total Liabilities</b>	163,323	-	-	1,100	164,423
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Unavailable Revenue:					
Property Taxes	61,715	-	-	-	61,715
Special Assessments	-	109,150	-	-	109,150
<b>Total Deferred Inflows of Resources</b>	61,715	109,150	-	-	170,865
<b>FUND BALANCES</b>					
Nonspendable	10,012	-	-	36,948	46,960
Restricted	124,270	337,676	199,501	-	661,447
Assigned	-	-	328,857	238,567	567,424
Unassigned	1,460,133	-	-	-	1,460,133
<b>Total Fund Balances</b>	<u>1,594,415</u>	<u>337,676</u>	<u>528,358</u>	<u>275,515</u>	<u>2,735,964</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>	<u>\$ 1,819,453</u>	<u>\$ 446,826</u>	<u>\$ 528,358</u>	<u>\$ 276,615</u>	<u>\$ 3,071,252</u>

**CITY OF SCANDIA, MINNESOTA  
RECONCILIATION OF THE BALANCE SHEET-GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET POSITION  
DECEMBER 31, 2013**

Total Fund Balance for Governmental Funds	\$	2,735,964
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets (net of accumulated depreciation of \$4,998,513) used in governmental activities are not financial resources and, therefore are not reported in the funds.		9,143,882
Other long-term assets are not available to pay for current-period expenditures and therefore are reported as unavailable revenue in the funds.		170,865
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.		
Accrued Interest		(3,462)
Compensated Absences		(23,977)
Long-term liabilities are not due and payable in the current period and, therefore, they are not reported in the governmental funds.		
Debt Due Within One Year		(290,000)
Debt Due After One Year		<u>(1,035,000)</u>
<b>TOTAL NET POSITION OF GOVERNMENTAL ACTIVITIES</b>	<b>\$</b>	<b><u>10,698,272</u></b>

**CITY OF SCANDIA, MINNESOTA**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Equipment Replacement Fund</u>	<u>Total Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>					
Taxes	\$ 1,739,138	\$ 360,599	\$ -	\$ 91,291	\$ 2,191,028
Special Assessments	-	28,861	-	-	28,861
Licenses, Permits, and Fees	100,007	-	-	-	100,007
Intergovernmental	44,941	-	-	-	44,941
Charges for Services	230,798	-	-	-	230,798
Fines	11,534	-	-	-	11,534
Investment Income	5,396	1,392	659	729	8,176
Miscellaneous	31,581	-	-	-	31,581
<b>TOTAL REVENUES</b>	<u>2,163,395</u>	<u>390,852</u>	<u>659</u>	<u>92,020</u>	<u>2,646,926</u>
<b>EXPENDITURES</b>					
Current:					
General Government	568,664	-	-	-	568,664
Public Safety	346,826	-	-	-	346,826
Public Works	730,121	-	-	-	730,121
Parks and Recreation	96,193	-	-	1,450	97,643
Debt Service:					
Principal	-	480,000	-	-	480,000
Interest and Other Charges	-	67,639	-	-	67,639
Capital Outlay	63,871	-	344,953	41,617	450,441
<b>TOTAL EXPENDITURES</b>	<u>1,805,675</u>	<u>547,639</u>	<u>344,953</u>	<u>43,067</u>	<u>2,741,334</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	357,720	(156,787)	(344,294)	48,953	(94,408)
<b>OTHER FINANCING SOURCES (USES)</b>					
Bond Proceeds	-	570,000	-	-	570,000
Proceeds on Sale of Assets	-	-	5,905	-	5,905
Operating Transfers In	7,042	-	644,354	-	651,396
Operating Transfers Out	(99,900)	(544,454)	-	-	(644,354)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(92,858)</u>	<u>25,546</u>	<u>650,259</u>	<u>-</u>	<u>582,947</u>
<b>NET CHANGE IN FUND BALANCES</b>	264,862	(131,241)	305,965	48,953	488,539
<b>FUND BALANCES - BEGINNING</b>	<u>1,329,553</u>	<u>468,917</u>	<u>222,393</u>	<u>226,562</u>	<u>2,247,425</u>
<b>FUND BALANCES - ENDING</b>	<u>\$ 1,594,415</u>	<u>\$ 337,676</u>	<u>\$ 528,358</u>	<u>\$ 275,515</u>	<u>\$ 2,735,964</u>

See accompanying notes.

**CITY OF SCANDIA, MINNESOTA  
RECONCILIATION OF CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2013**

Net change in fund balances - total governmental funds \$ 488,539

Amounts reported for governmental activities in the Statement  
of Activities are different due to the following:

Governmental funds report capital outlays as expenditures  
while governmental activities report depreciation expense  
to allocate those expenditures over the life of the assets:

Capital Outlay	\$ 450,441	
Depreciation Expense	(411,983)	38,458

Revenues in Statement of Activities that do not provide  
current financial resources are not reported as revenues  
in the funds:

Change in Long-term Receivables		(16,926)
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Proceeds from the issuance of long-term debt is an other financing  
source in the governmental funds, while repayment of debt principal  
is an expenditure in the governmental funds. However, neither  
transaction has any effect on net position:

Bond Payments	480,000	
Bond Proceeds	(570,000)	(90,000)

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

1,946

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

Change in Accrued Compensated Absences		(8,961)

<b>CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES</b>		<b>\$ 413,056</b>

**CITY OF SCANDIA, MINNESOTA  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
DECEMBER 31, 2013**

	201 Sewer Fund	Uptown Sewer Fund	Totals
<b>ASSETS</b>			
Current Assets			
Cash and Cash Equivalents	\$ 175,550	\$ -	\$ 175,550
Accounts Receivable	11,960	2,101	14,061
Assessments Receivable	4,686	-	4,686
Total Current Assets	192,196	2,101	194,297
Noncurrent Assets			
Capital Assets Being Depreciated (Net)	780,000	205,013	985,013
<b>TOTAL ASSETS</b>	972,196	207,114	1,179,310
<b>LIABILITIES</b>			
Current Liabilities			
Accounts Payable	1,136	475	1,611
Due to Other Funds	-	3,380	3,380
Total Current Liabilities	1,136	3,855	4,991
Noncurrent Liabilities			
Advance from Other Funds	-	36,948	36,948
<b>TOTAL LIABILITIES</b>	1,136	40,803	41,939
<b>NET POSITION</b>			
Net Investment in Capital Assets	780,000	168,065	948,065
Unrestricted	191,060	(1,754)	189,306
<b>TOTAL NET POSITION</b>	\$ 971,060	\$ 166,311	\$ 1,137,371

**CITY OF SCANDIA, MINNESOTA**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>201 Sewer Fund</u>	<u>Uptown Sewer Fund</u>	<u>Totals</u>
<b>OPERATING REVENUES</b>			
Charges for Services	\$ 80,352	\$ 18,813	\$ 99,165
<b>OPERATING EXPENSES</b>			
Wages and Benefits	4,171	1,870	6,041
Materials and Supplies	313	103	416
Professional Services	4,466	314	4,780
Repairs and Maintenance	35,970	4,398	40,368
Other Services and Charges	12,849	2,405	15,254
Depreciation	<u>30,000</u>	<u>4,877</u>	<u>34,877</u>
<b>TOTAL OPERATING EXPENSES</b>	<u>87,769</u>	<u>13,967</u>	<u>101,736</u>
<b>NET OPERATING INCOME (LOSS)</b>	(7,417)	4,846	(2,571)
<b>NONOPERATING INCOME</b>			
Special Assessments	3,055	-	3,055
Investment Income	<u>490</u>	<u>-</u>	<u>490</u>
<b>TOTAL NONOPERATING INCOME</b>	<u>3,545</u>	<u>-</u>	<u>3,545</u>
<b>CHANGE IN NET POSITION PRIOR TO TRANSFERS</b>	(3,872)	4,846	974
<b>TRANSFERS</b>			
Operating Transfers Out	<u>(2,972)</u>	<u>(4,070)</u>	<u>(7,042)</u>
<b>CHANGE IN NET POSITION</b>	(6,844)	776	(6,068)
<b>NET POSITION-BEGINNING OF YEAR</b>	<u>977,904</u>	<u>165,535</u>	<u>1,143,439</u>
<b>NET POSITION-END OF YEAR</b>	<u>\$ 971,060</u>	<u>\$ 166,311</u>	<u>\$ 1,137,371</u>

**CITY OF SCANDIA, MINNESOTA  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

	201 Sewer Fund	Uptown Sewer Fund	Totals
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash Received from Customers	\$ 77,966	\$ 19,077	\$ 97,043
Cash Paid to Suppliers	(68,209)	(13,241)	(81,450)
Cash Paid to Employees	(4,171)	(1,870)	(6,041)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	5,586	3,966	9,552
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Special Assessments	7,281	-	7,281
Net Advances to/from Other Funds	636	2,744	3,380
Net Operating Subsidies and Transfers to/from Other Funds	(2,972)	(4,070)	(7,042)
<b>NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES</b>	4,945	(1,326)	3,619
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Payments to Capital Improvement Fund	-	(2,640)	(2,640)
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Investment Income	490	-	490
Net Increase in Cash and Cash Equivalents	11,021	-	11,021
Cash and Cash Equivalents-Beginning of Year	164,529	-	164,529
Cash and Cash Equivalents-End of Year	\$ 175,550	\$ -	\$ 175,550
<b>RECONCILIATION OF NET OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>			
Net Operating Income (Loss)	\$ (7,417)	\$ 4,846	\$ (2,571)
Adjustments to Reconcile Net Operating Income (Loss) to Net Cash Provided by Operating Activities			
Cash Flows Reported in Other Categories:			
Depreciation Expense	30,000	4,877	34,877
Change in Assets and Liabilities:			
Accounts Receivable	(2,386)	264	(2,122)
Accounts Payable	(14,611)	(6,021)	(20,632)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	\$ 5,586	\$ 3,966	\$ 9,552

**CITY OF SCANDIA, MINNESOTA  
STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUND  
DECEMBER 31, 2013**

	<u>Agency Fund</u>
<b>ASSETS</b>	
Cash and Cash Equivalents	<u>\$ 173,143</u>
<b>LIABILITIES</b>	
Accounts Payable	<u>\$ 173,143</u>

CITY OF SCANDIA, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS

INDEX

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**CITY OF SCANDIA, MINNESOTA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the City of Scandia (the City), have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements.

The City has a mayor-council form of government that is governed by an elected mayor and four-member council. The City provides the following services: sanitation, recreation, public improvements, public safety, planning and zoning, and general administrative services.

**1.A. FINANCIAL REPORTING ENTITY**

The City's financial reporting entity is comprised of the primary governmental unit of the City of Scandia, Minnesota.

In determining the financial reporting entity, the City complies with the provisions of GASB No. 14, *The Financial Reporting Entity*, and includes all component units of which the City appointed a voting majority of the units' board; the City is either able to impose its will on the unit or a financial benefit or burden relationship exists.

**Blended Component Units**

Blended component units are separate legal entities that meet the component unit criteria describe above and whose governing body is the same or substantially the same as the City Council or the component unit provides services entirely to the City. These component units' funds are blended into those of the City's by appropriate activity type to compose the primary government presentation. Currently, the City's does not have any blended component units.

**Discretely Presented Component Units**

Discretely presented component units are separate legal entities that meet the component unit criteria described above but do not meet the criteria for blending. Currently, the City has no discretely presented component units.

**1.B. BASIS OF PRESENTATION**

**Government-wide Financial Statements**

The Statement of Net Position and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The fiduciary fund is only reported in the Statement of Fiduciary Net Position at the fund financial statement level. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods and services.

**Fund Financial Statements**

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, deferred inflows, fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

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

**CITY OF SCANDIA, MINNESOTA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013**

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

**1.B. BASIS OF PRESENTATION (Continued)**

**Fund Financial Statements (Continued)**

The funds of the financial reporting entity are described below:

Governmental Funds

*General Fund*

The General Fund is the primary operating fund of the City and is always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

*Debt Service Fund*

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

*Capital Projects Improvements Funds*

The Capital Projects Improvement Funds are used to account for financial resources to be used for the acquisition or construction of capital projects (other than funds financed by proprietary funds.)

Proprietary Fund

*Enterprise Funds*

Enterprise Funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector. The City maintains 201 Sewer and Uptown Sewer Enterprise Funds.

Fiduciary Fund

This fund accounts for assets held by the City as an agent for other parties. These assets cannot be used to finance the City's own operating programs.

Major and Nonmajor Funds

The funds are further classified as major and nonmajor as follows:

Fund	Description
Major:	
General	See description above.
Debt Service Fund	See description above.
Capital Project Fund:	
Equipment Replacement Fund	See description above.
Proprietary Funds:	
201 Sewer and Uptown Sewer	Accounts for the activities of the City for providing sewer services to the public.
Nonmajor:	
Capital Project Funds	See description above.
Fiduciary Fund	See description above.

**CITY OF SCANDIA, MINNESOTA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013**

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

**1.C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING**

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

**Measurement Focus**

On the government-wide Statement of Net Position and the Statement of Activities, both governmental and business-like activities are presented using the “economic resources” measurement focus as defined in the second bullet point below.

In the fund financial statements, the “current financial resources” measurement focus or the “economic resources” measurement focus is used as appropriate:

- All governmental funds utilize a current financial resources measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- The government-wide financial statements, proprietary, and fiduciary funds utilize an economic resources measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), and financial position. All assets and liabilities (whether current or noncurrent) associated with their activities are reported.

**Basis of Accounting**

In the government-wide Statement of Net Position and Statement of Activities, both governmental and business-like activities are presented using the “accrual” basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds are presented on the “modified accrual” basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when “measurable and available.” Measurable means knowing or being able to reasonable estimate the amount. Available means collectible within the current period or within sixty days after year end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

All proprietary and fiduciary funds utilize the accrual basis of accounting.

**1.D. USE OF ESTIMATES**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**CITY OF SCANDIA, MINNESOTA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013**

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

**1.E. ASSETS, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND EQUITY**

**Cash and Cash Equivalents**

For purposes of the Statement of Net Position, "cash, cash equivalents" includes all demand, savings, and money market accounts for the City. For the purpose of the proprietary fund Statement of Cash Flows, "cash and cash equivalents" include all demand, savings, and money market accounts with an original maturity of three months or less.

See Note 3.A. for additional information related to Cash and Cash Equivalents.

**Interfund Receivables and Payables**

During the course of operations, transactions occur between individual funds that may result in amounts owed between funds. Those related to good and services type transactions are classified as "due to and from other funds." Short-term interfund loans are reported as "due to/from other fund." Long-term interfund loans (noncurrent portion) are reported as "advances from and to other funds." Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Position. See Note 3.D. for details of interfund transactions, including receivables and payables at year-end.

**Prepays**

Prepays represent costs paid during the current year to be recognized in future periods.

**Inventories**

Inventory is valued at the lower of average cost or market based on physical counts. Inventory in the General Fund consists of expendable supplies held for consumption and is equally offset by a nonspendable fund balance classification. The cost of inventory is recorded as an expense when purchased and adjusted at year-end.

**Receivables**

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable and are not deemed necessary at year end. Major receivable balances for the governmental activities include charges for services, fines, fees, taxes, and special assessments. Business-type activities report utility charges as their major receivables.

In the fund financial statements, material receivables in governmental funds include revenue accruals such as taxes, franchise fees, fines and charges for service since they are usually both measurable and available. Nonexchange transactions collectible but not available are deferred inflows in the fund financial statements in accordance with modified accrual, but not deferred inflows in the government-wide financial statements in accordance with the accrual basis. Interest and investment earnings are recorded when earned only if paid within 60 days since they would be considered both measurable and available. Proprietary fund material receivables consist of all revenues earned at year-end and not yet received. Utility accounts receivable compose the majority of proprietary fund receivables. Allowance for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable. No allowances are deemed necessary at year end.

**CITY OF SCANDIA, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2013**

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

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

**Capital Assets**

The accounting treatment over property, plant and equipment (capital assets) depends on whether the assets are used in governmental or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and must have an estimated useful life in excess of one year.

The range of estimated useful lives by type of asset is as follows:

Buildings and Structures	40 years
Machinery and Equipment	5-25 years
Vehicles	25 years
Infrastructure	50 years

Government-wide Statements

In the government-wide financial statements, capital outlay expenditures are accounted for as capital assets. All capital assets are valued at historical cost or estimated historical cost if actual is unavailable, except for donated capital assets which are recorded at their estimated fair value at the date of donation.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The City follows a policy under which a full year of depreciation is taken on an asset in the year of its acquisition.

Fund Financial Statements

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

**Long-Term Debt**

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term debt consists primarily of general obligation bonds and certificates payable.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest are reported as expenditures. The accounting for proprietary funds is the same in the fund statements as it is in the government-wide statements.

**CITY OF SCANDIA, MINNESOTA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013**

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

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

**Compensated Absences**

It is the City's policy to permit employees to accumulate a limited amount of earned but unused leave. All leave pay is accrued when incurred in the government-wide and proprietary fund financial statements.

A liability for these amounts is reported in governmental funds only if they have matured, for example, as the result of an employee's resignation or retirement. In the event a liability is recorded in the governmental funds, General Fund resources would be used to liquidate the compensated absences.

**Deferred Inflow of Resources**

In addition to liabilities, the balance sheet reports a separate section for deferred inflows of resources. This element represents an acquisition of fund balance that applies to future periods and therefore will not be recognized as an inflow of resources (revenue) until that time. The City reports property taxes and special assessments as deferred inflows of resources and accordingly, these amounts are deferred and recognized as inflows of resources in the period that they become available. Because this type of unavailable revenue is only reported under a modified accrual basis of accounting, deferred inflows of resources are only reported in the governmental funds balance sheet.

**Equity Classifications**

Government-wide Statements

Equity is classified as net position and displayed in three components:

Net Investment in Capital Assets – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted – Consists of net position with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or 2) law through constitutional provisions or enabling legislation.

Unrestricted – Remaining balance of net position that does not meet the definition of “restricted” or “net investment in capital assets.”

Fund Statements

Governmental Fund Financial Statements – In the fund financial statements, governmental funds report fund balances as either nonspendable, restricted, committed, assigned, or unassigned. When the City incurs an expenditure for which it may use either restricted or unrestricted fund balances, it uses restricted fund balances first unless unrestricted fund balances will have to be returned because they were not used. When the City incurs an expenditure for purposes for which amounts in any unrestricted fund balance classification could be used, it uses fund balances in the following order: Committed, assigned, unassigned.

Nonspendable – Includes amounts that cannot be spent because they are either not in spendable form, or legally or contractually required to be maintained intact. The nonspendable fund balances at December 31, 2013 consist of inventory and prepaid expenditures.

Restricted – Includes the portion of fund balance which is not available for appropriation or which has been legally segregated for a specific purpose.

**CITY OF SCANDIA, MINNESOTA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013**

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

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

**Equity Classifications (Continued)**

Fund Statements (Continued)

Committed – Amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the City Council.

Assigned – Amounts that are constrained by the City’s intent to be used for specific purposes, but are neither restricted nor committed.

Unassigned – This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. The City has formally adopted a policy under which it strives to maintain a minimum unassigned general fund balance equal to approximately 35%-50% of annual General Fund operating expenses.

See Note 3.E. for additional disclosures.

Proprietary Fund Financial Statements – Proprietary fund equity is classified the same as in the government-wide statements, as described on the prior page.

**1.F. REVENUES, EXPENDITURES, AND EXPENSES**

**Property Tax**

Under state law, municipalities are limited in their ability to levy a property tax. The City levies its property tax for the subsequent year during the month of December. County of Washington is the collecting agency for the levy and remits the collections to the City. In the fund financial statements, property taxes are recorded as revenue in the period levied to the extent they are collected within 60 days of year-end.

December 31 is the last day the City can certify a tax levy to the County Auditor for collection the following year. The County Auditor makes up the tax list for all taxable property in the City and applies the applicable tax rate to the tax capacity of individual properties to arrive at the actual tax for each property. The County Auditor also collects all special assessments, except for certain prepayments paid directly to the City. The County Auditor remits a list of taxes and special assessments to be collected on each parcel of property to the County Treasurer in January of each year. The County Treasurer collects all taxes and assessments, except as noted above. The County Treasurer mails copies of all real estate and personal property tax statements. Each year, property owners are required to pay one half of their real estate taxes by May 15 and the balance by October 15. Penalties and interest are assessed to property owners who do not pay their property taxes and special assessments by the due dates.

Delinquent taxes receivable include the past six years’ uncollected taxes. Delinquent taxes have been offset by deferred inflows of resources for taxes not received within 60 days after year end in the fund financial statements.

**Operating Revenues and Expenses**

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and noncapital financing or investing activities.

**CITY OF SCANDIA, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2013**

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

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

**Expenditures/Expenses**

In the government-wide financial statements, expenses are classified by function for both governmental and business-type activities.

In the fund financial statements, expenditures are classified as follows:

Governmental Funds - By Character	Current (further classified by Function)
	Debt Service
	Capital Outlay

Proprietary Fund - By Operating and Nonoperating

In the fund financial statements, governmental funds report expenditures of financial resources. Proprietary funds report expenses relating to use of economic resources.

**Interfund Transfers**

Permanent reallocations of resources between funds of the reporting entity are classified as interfund transfers. For the purpose of the Statement of Activities, all interfund transfers between individual governmental funds, as well as all interfund transfers between individual proprietary funds, have been eliminated. See additional information at Note 3.D.

**1.G. RECENTLY ISSUED ACCOUNTING STANDARDS**

Effective December 31, 2013, the City adopted Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement establishes standards for reporting deferred outflows of resources, deferred inflows of resources, and net position.

The City also adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement reclassifies certain items that were previously reported as assets and liabilities and deferred outflows resources, deferred inflows of resources or current-period outflows and inflows.

**1.H. RECLASSIFICATIONS**

Certain amounts from 2012 have been reclassified to conform to the 2013 presentation in the Management's Discussion and Analysis section.

**NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**2.A. FUND ACCOUNTING REQUIREMENTS AND DEPOSITS AND INVESTMENTS LAWS AND REGULATIONS**

By its nature as a local government unit, the City is subject to various federal, state, and local laws and contractual regulations. The City complies with all state and local laws and regulations requiring the use of separate funds.

In accordance with state law, all uninsured deposits of municipal funds in financial institutions must be secured with acceptable collateral valued at the lower of market or par. Minnesota Statutes require that all deposits with financial institutions be collateralized in an amount equal to 110% of deposits in excess of FDIC or FSLIC insurance (100% if collateral pledged is irrevocable standard letters of credit issued by the Federal Home Loan Bank). The City complies with such laws.

**CITY OF SCANDIA, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2013**

**NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Continued)**

**2.B. BUDGETARY INFORMATION**

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. All annual appropriations lapse at fiscal year-end. The City does not use encumbrance accounting.

**NOTE 3 DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS**

The following notes present detail information to support the amounts reported in the basic financial statements for its various assets, liabilities, deferred inflows, equity, revenues, and expenditures/expenses.

**3.A. CASH, CASH EQUIVALENTS, AND INVESTMENTS**

**Deposits**

In accordance with applicable Minnesota Statutes, the City maintains deposits at depository banks authorized by the City Council. Minnesota Statutes require that all City deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds (100% if collateral pledged is irrevocable standard letters of credit issued by the Federal Home Loan Bank). Authorized collateral in lieu of a corporate surety bond includes:

- United States government Treasury bills, Treasury notes, Treasury bonds;
- Issues of United States government agencies and instrumentalities as quoted by a recognized industry quotation service available to the government entity;
- A general obligation of a state or local government, with taxing powers, rated "A" or better;
- A revenue obligation of a state or local government, with taxing powers, rated "AA" or better;
- Unrated general obligation securities of a local government, with taxing powers, pledged as collateral against funds deposited by that same local government entity;
- Irrevocable standby letter of credit issued by a Federal Home Loan Bank accompanied by written evidence that the Federal Home Loan Bank's public debt is rated "AA" or better by Moody's or Standard and Poor's; or
- Time deposits insured by any federal agency.

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

At December 31, 2013, the City's deposits were not exposed to custodial credit risk. The City's deposits were sufficiently covered by federal depository insurance or by collateral held by the government's agent in the government's name.

**CITY OF SCANDIA, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2013**

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

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

**Investments**

The City may also invest idle funds as authorized by Minnesota Statutes as follows: direct obligations guaranteed by the United States or its agencies; shares of investment companies registered under the Federal Investment Company Act of 1940 that received the highest credit rating, are rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of 13 months or less; general obligations rated "A" or better; revenue obligations rated "AA" or better; general obligations of the Minnesota Housing Finance Agency rated "A" or better; bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System; commercial paper issued by United States corporations or their Canadian subsidiaries, rated of the highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less; Guaranteed Investment Contracts guaranteed by a United States commercial bank, domestic branch of a foreign bank, or a United States insurance company, and with a credit quality in one of the top two highest categories; repurchase or reverse purchase agreements and securities lending agreements with financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers. The City does not have any investment policies that would further limit investment choices.

At December 31, 2013, the City does not hold any investments.

**CITY OF SCANDIA, MINNESOTA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013**

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

**3.B. CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2013 is as follows:

	Balance at Jan. 01, 2013	Additions	Disposals	Balance at Dec. 31, 2013
Governmental Activities:				
Capital Assets not Being Depreciated				
Land	\$ 487,735	\$ -	\$ -	\$ 487,735
Construction In Progress	-	25,761	-	25,761
Total Capital Assets not Being Depreciated	487,735	25,761	-	513,496
Capital Assets Being Depreciated				
Buildings	2,232,670	-	-	2,232,670
Equipment	624,232	29,024	-	653,256
Vehicles	1,017,721	395,656	106,820	1,306,557
Infrastructure	9,273,769	-	-	9,273,769
Other Improvements	162,647	-	-	162,647
Total Capital Assets Being Depreciated	13,311,039	424,680	106,820	13,628,899
Less: Accumulated Depreciation				
Buildings	760,845	48,261	-	809,106
Equipment	282,493	56,622	-	339,115
Vehicles	626,205	64,122	106,820	583,507
Infrastructure	2,941,900	236,084	-	3,177,984
Other Improvements	81,907	6,894	-	88,801
Total Accumulated Depreciation	4,693,350	411,983	106,820	4,998,513
Total Capital Assets Being Depreciated, Net	8,617,689	12,697	-	8,630,386
Capital Assets, Net	\$ 9,105,424	\$ 38,458	\$ -	\$ 9,143,882

**CITY OF SCANDIA, MINNESOTA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013**

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

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

	Balance at Jan. 01, 2013	Additions	Disposals	Balance at Dec. 31, 2013
Business-Type Activities:				
Capital Assets Being Depreciated				
Sewer Plant	\$    1,500,000	\$            -	\$            -	\$    1,500,000
Uptown Sewer	243,827	-	-	243,827
Total Capital Assets Being Depreciated	1,743,827	-	-	1,743,827
Less: Accumulated Depreciation				
201 Sewer Plant	690,000	30,000	-	720,000
Uptown Sewer	33,937	4,877	-	38,814
Total Accumulated Depreciation	723,937	34,877	-	758,814
Total Capital Assets Being Depreciated, Net	1,019,890	(34,877)	-	985,013
Business-Type Activities	\$    1,019,890	\$        (34,877)	\$            -	\$    985,013

Depreciation is charged to governmental activities as follows:

General Government	\$        15,759
Public Safety	53,984
Public Works	329,999
Parks and Recreation	12,241
Total Depreciation Expense	\$    411,983

**3.C.    LONG-TERM DEBT**

The reporting the City's long-term debt is segregated between the amounts to be repaid from governmental activities and amounts to be repaid from business-type activities (none). All bonds and certificates set forth below are direct obligations of the City and pledge the full faith and credit of the City.

**CITY OF SCANDIA, MINNESOTA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013**

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

**3.C. LONG-TERM DEBT (Continued)**

As of December 31, 2013, the long-term debt of the financial reporting entity consists of the following:

**Governmental Activities**

General Obligation Debt						
	Issue Date	Annual Payment	Interest Rate(s)	Maturity Date	Original Amount	Remaining Amount
2005 Building Crossover Bonds	5/05	\$85,000 - 110,000	3.35-4.20%	12/15	\$ 685,000	\$ 40,000
2007 Improvement Bonds	5/07	\$125,000 - 250,000	3.65-4.10%	12/17	1,430,000	505,000
2010 Equipment Certificate	7/10	\$40,000	2.20-3.55%	2/16	200,000	120,000
2011 Equipment Certificate	7/11	\$30,000	2.75-3.95%	12/16	150,000	90,000
2013 Equipment Certificate	7/13	\$50,000 - 65,000	1.00-2.50%	7/23	570,000	570,000
Total Governmental Activities Bonds Payable						1,325,000
Bonds Due Within One Year						290,000
Bonds Due After One Year						\$ 1,035,000

**Changes in Long-Term Debt**

The following is a summary of changes in long-term debt for the year ended December 31, 2013:

Type of Debt	Balance 1/1/13	Additions	Deductions	Balance 12/31/13	Amounts Due Within One Year
Governmental Activities:					
General Obligation Notes	\$ 1,235,000	\$ 570,000	\$ (480,000)	\$ 1,325,000	\$ 290,000
Compensated Absences	15,016	24,990	(16,029)	23,977	23,977
<b>Total Long-Term Debt</b>	<b>\$ 1,250,016</b>	<b>\$ 594,990</b>	<b>\$ (496,029)</b>	<b>\$ 1,348,977</b>	<b>\$ 313,977</b>

Interest expense totals \$50,768 in the Statement of Activities (included in Debt Service line). Interest expense totals \$52,714 for the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds (included in the line Interest and Other Charges).

**CITY OF SCANDIA, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2013**

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

**3.C.    LONG-TERM DEBT (Continued)**

**Annual Debt Service Requirements**

At December 31, 2013, the estimated annual debt service requirements to maturity, including principal and interest, are as follows for the City's governmental activities:

Years Ending December 31,	Governmental Activities		
	Principal	Interest	Total
2014	\$ 290,000	\$ 38,221	\$ 328,221
2015	245,000	28,641	273,641
2016	245,000	20,583	265,583
2017	180,000	12,969	192,969
2018	55,000	7,019	62,019
Thereafter	310,000	17,758	327,758
Totals	<u>\$ 1,325,000</u>	<u>\$ 125,191</u>	<u>\$ 1,450,191</u>

Governmental activity debt is typically funded through the Debt Service Fund.

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

Operating transfers consist of the following for the year ended December 31, 2013:

Major Funds	Transfers Out	Transfers In		
		Major Funds		
		General	Equipment Replacement	Total
General	\$ 99,900	\$ -	\$ 99,900	\$ 99,900
Debt	544,454	-	544,454	544,454
201 Sewer	2,972	2,972	-	2,972
Uptown Sewer	4,070	4,070	-	4,070
	<u>\$ 651,396</u>	<u>\$ 7,042</u>	<u>\$ 644,354</u>	<u>\$ 651,396</u>

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

**CITY OF SCANDIA, MINNESOTA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013**

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

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

The interfund balances are as follows:

Long-Term Advances		Amount	Reason
Due To Fund	Due From Fund		
Capital Improvement	Uptown Sewer	\$    36,948	Sewer improvements
Short-Term Balances			
Due To Fund	Due From Fund		
General Fund	Uptown Sewer	3,380	Eliminate negative cash
Total Interfund Balances		\$    40,328	

The Uptown Sewer Fund monies owed to the General Fund and Capital Improvement Fund will be repaid as future sewer charges are collected and the cash flows become available.

**3.E. FUND EQUITY**

At December 31, 2013, governmental fund equity consists of the following:

General Fund		
Nonspendable - Prepays and Inventory	\$	10,012
Restricted for Road Maintenance		124,270
Unassigned		1,460,133
Total General Fund Balance	\$	1,594,415
Equipment Replacement Fund		
Restricted for Equipment Replacement		199,501
Assigned for Equipment Replacement		328,857
Total Equipment Replacement Fund Balance	\$	528,358
Debt Service Fund		
Restricted for Debt Service	\$	337,676
Other Governmental Funds		
Nonspendable - Advance from Other Fund	\$	36,948
Assigned for Capital Improvements		230,583
Assigned for Park Capital Improvements		7,984
Total Other Governmental Funds Balance	\$	275,515

**CITY OF SCANDIA, MINNESOTA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013**

**NOTE 4 OTHER NOTES**

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

**Plan Description**

All full-time and certain part-time employees of the City of Scandia are covered by defined benefit 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 plans are established and administered in accordance with Minnesota Statutes, Chapters 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.

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 percent of average salary for each of the first 10 years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first 10 years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For all GERF 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 GERF. That report may be obtained on the Internet at [www.mnpera.org](http://www.mnpera.org), by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088 or by calling (651) 296-7460 or 1-800-652-9026.

**CITY OF SCANDIA, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2013**

**NOTE 4 OTHER NOTES (Continued)**

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

**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 2013. In 2013, the City was required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan GERS members and 7.25% for Coordinated Plan GERS members. The City's contributions to the General Employees Retirement Fund for the years ending December 31, 2013, 2012, and 2011 total \$21,074, \$20,284, and \$21,169, respectively. The City's contributions are equal to the contractually required contributions for each year as set by state statute.

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

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

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

Total contributions made by the City during fiscal year 2013 amount to \$824.

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

**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. The City is able to voluntarily contribute above and beyond the required contribution amount.

**CITY OF SCANDIA, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2013**

**NOTE 4 OTHER NOTES (Continued)**

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

**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.

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 2013 were as follows:

City Contributions	\$	19,200
State Aid		<u>24,720</u>
 Total Contributions	 \$	 <u>43,920</u>

**4.D. RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To manage these risks, the City purchases commercial insurance. The City retains risk for the deductible portions of the insurance. The amounts of these deductibles are considered immaterial to the financial statements. There were no significant reductions in insurance from the previous year settlements in excess of insurance for any of the past two years.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities, if any, include an amount for claims that have been incurred but not reported. The City’s management is not aware of any incurred but no reported claims.

**4.E. COMMITMENTS**

**Law Enforcement Services**

The City receives law enforcement services under an agreement with Washington County. Such agreement automatically renews on an annual basis and calls for the City to compensate the County based on the actual costs incurred while providing services under the agreement. Based on the 2014 contract budget, expenditures anticipated under this agreement for 2014 are estimated at \$121,258.

**Construction Contract**

During the current year, the City contracted for roofing construction services for the City’s Community Center in the amount of \$32,344. Remaining commitment under such contract at December 31, 2013 totals \$7,683.

**CITY OF SCANDIA, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2013**

**NOTE 4 OTHER NOTES (Continued)**

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

During the year ended December 31, 2013, the City determined adjustments to beginning net position were necessary to conform to the financial presentation prescribed under newly adopted standards previously discussed in Note 1.G. Adjustments were made to eliminate unamortized bond costs recorded as assets in prior years. Under GASB Statement No. 65, these costs are expensed as incurred.

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

	Governmental Activities
Beginning Net Position	\$ 10,314,870
Prior Year Unamortized Bond Costs	(29,654)
Beginning Net Position - Restated	\$ 10,285,216

**4.G. SUBSEQUENT EVENTS**

Subsequent to year end and prior to the issuance of these financial statements, the City entered into multiple purchase agreements for a municipal vehicle and equipment. The City committed a total of \$201,956 under these agreements.

### **REQUIRED SUPPLEMENTARY INFORMATION**

Required supplementary information includes financial information and disclosures that are required by the GASB but are not considered a part of the basic financial statements. Such information includes:

Budgetary Comparison Schedule-General Fund

**CITY OF SCANDIA, MINNESOTA  
BUDGETARY COMPARISON SCHEDULE-GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2013**

	Budget Amounts- Original and Final	Actual Amounts Budgetary Basis	Variance with Final Budget Over (Under)
<b>RESOURCES (INFLOWS):</b>			
Taxes	\$ 1,747,474	\$ 1,739,138	\$ (8,336)
Licenses, Permits, & Fees	34,050	100,007	65,957
Intergovernmental	29,360	44,941	15,581
Charges for Services	99,017	230,798	131,781
Fines	18,000	11,534	(6,466)
Investment Income	7,897	5,396	(2,501)
Miscellaneous	6,516	31,581	25,065
Transfers In	13,086	7,042	(6,044)
<b>AMOUNTS AVAILABLE</b>	<u>1,955,400</u>	<u>2,170,437</u>	<u>215,037</u>
<b>CHARGES TO APPROPRIATIONS (OUTFLOWS):</b>			
General Government:			
Mayor and Council	19,861	17,800	(2,061)
Planning and Buildings	68,796	202,660	133,864
Elections	470	470	-
General Government	379,431	347,734	(31,697)
Public Safety:			
Police	118,759	116,384	(2,375)
Fire	272,982	230,442	(42,540)
Public Works	788,927	730,121	(58,806)
Parks and Recreation	96,599	96,193	(406)
Capital Outlay	86,912	63,871	(23,041)
Transfers Out	99,900	99,900	-
<b>TOTAL CHARGES</b>	<u>1,932,637</u>	<u>1,905,575</u>	<u>(27,062)</u>
<b>BUDGETARY CHANGE IN FUND BALANCE</b>	<u>\$ 22,763</u>	<u>\$ 264,862</u>	<u>\$ 242,099</u>

#### **OTHER SUPPLEMENTARY INFORMATION**

Other supplementary information includes financial statements and schedules not required by GASB, nor a part of the basic financial statements, but are presented for purposes of additional analysis.

Such statements and schedules include:

- Combining Statements – Nonmajor Governmental Funds
- Combining Schedules – Nonmajor Debt Service Fund

**CITY OF SCANDIA, MINNESOTA  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 DECEMBER 31, 2013**

	<u>Capital Improvement Fund</u>	<u>Park Capital Improvement Fund</u>	<u>Total Nonmajor Governmental Funds</u>
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 231,683	\$ 7,984	\$ 239,667
Advance to Other Fund	<u>36,948</u>	<u>-</u>	<u>36,948</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 268,631</u></u>	<u><u>\$ 7,984</u></u>	<u><u>\$ 276,615</u></u>
<b>LIABILITIES</b>			
Accounts Payable	\$ 1,100	\$ -	\$ 1,100
<b>FUND BALANCES</b>			
Nonspendable	36,948	-	36,948
Assigned	<u>230,583</u>	<u>7,984</u>	<u>238,567</u>
Total Fund Balances	<u><u>267,531</u></u>	<u><u>7,984</u></u>	<u><u>275,515</u></u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u><u>\$ 268,631</u></u>	<u><u>\$ 7,984</u></u>	<u><u>\$ 276,615</u></u>

**CITY OF SCANDIA, MINNESOTA**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

	Capital Improvement Fund	Park Capital Improvement Fund	Total Nonmajor Governmental Funds
	<u>          </u>	<u>          </u>	<u>          </u>
<b>REVENUES</b>			
Taxes	\$ 91,291	\$ -	\$ 91,291
Investment Income	701	28	729
<b>TOTAL REVENUES</b>	<u>91,992</u>	<u>28</u>	<u>92,020</u>
<b>EXPENDITURES</b>			
Current:			
Parks and Recreation	-	1,450	1,450
Capital Outlay	41,617	-	41,617
<b>TOTAL EXPENDITURES</b>	<u>41,617</u>	<u>1,450</u>	<u>43,067</u>
<b>NET CHANGE IN FUND BALANCES</b>	50,375	(1,422)	48,953
<b>FUND BALANCES - BEGINNING</b>	<u>217,156</u>	<u>9,406</u>	<u>226,562</u>
<b>FUND BALANCES - ENDING</b>	<u>\$ 267,531</u>	<u>\$ 7,984</u>	<u>\$ 275,515</u>

CITY OF SCANDIA, MINNESOTA  
 SUPPLEMENTAL COMBINING BALANCE SHEET  
 DEBT SERVICE FUND  
 DECEMBER 31, 2013

	2007	2000	2010	2011	2013	Total
	Improvement Bond	Fire Hall Bond	Equipment Certificates	Equipment Certificates	Equipment Certificates	Debt Service
ASSETS						
Cash and Cash Equivalents	\$ 261,576	\$ 18,555	\$ 48,834	\$ 3,420	\$ 5,291	\$ 337,676
Assessments Receivable	109,150	-	-	-	-	109,150
<b>TOTAL ASSETS</b>	<b>\$ 370,726</b>	<b>\$ 18,555</b>	<b>\$ 48,834</b>	<b>\$ 3,420</b>	<b>\$ 5,291</b>	<b>\$ 446,826</b>

DEFERRED INFLOWS OF RESOURCES						
Unavailable Revenue:						
Special Assessments	\$ 109,150	\$ -	\$ -	\$ -	\$ -	\$ 109,150

FUND BALANCE						
Restricted	261,576	18,555	48,834	3,420	5,291	337,676

**TOTAL DEFERRED INFLOWS  
 OF RESOURCES AND  
 FUND BALANCE**

	\$ 370,726	\$ 18,555	\$ 48,834	\$ 3,420	\$ 5,291	\$ 446,826
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**CITY OF SCANDIA, MINNESOTA**  
**SUPPLEMENTAL COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**DEBT SERVICE FUND**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

	2007	2000	2010	2011	2013	Total
	Improvement	Fire Hall Bond	Equipment	Equipment	Equipment	Debt
	Bond		Certificates	Certificates	Certificates	Service
<b>REVENUES</b>						
Taxes	\$ 151,622	\$ 122,814	\$ 48,543	\$ 37,620	\$ -	\$ 360,599
Special Assessments	28,861	-	-	-	-	28,861
Investment Income	716	544	132	-	-	1,392
<b>TOTAL REVENUES</b>	<u>181,199</u>	<u>123,358</u>	<u>48,675</u>	<u>37,620</u>	<u>-</u>	<u>390,852</u>
<b>EXPENDITURES</b>						
Debt Service:						
Principal	135,000	275,000	40,000	30,000	-	480,000
Interest and Other Charges	25,619	13,125	4,440	4,200	20,255	67,639
<b>TOTAL EXPENDITURES</b>	<u>160,619</u>	<u>288,125</u>	<u>44,440</u>	<u>34,200</u>	<u>20,255</u>	<u>547,639</u>
<b>EXCESS (DEFICIENCY) OF REVENUES</b>	20,580	(164,767)	4,235	3,420	(20,255)	(156,787)
<b>OTHER FINANCING SOURCES (USES)</b>						
Bond Proceeds	-	-	-	-	570,000	570,000
Operating Transfers Out	-	-	-	-	(544,454)	(544,454)
<b>TOTAL OTHER FINANCING</b>						
<b>SOURCES (USES)</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>25,546</u>	<u>25,546</u>
<b>NET CHANGE IN FUND BALANCE</b>	20,580	(164,767)	4,235	3,420	5,291	(131,241)
<b>FUND BALANCE - BEGINNING</b>	240,996	183,322	44,599	-	-	468,917
<b>FUND BALANCE - ENDING</b>	<u>\$ 261,576</u>	<u>\$ 18,555</u>	<u>\$ 48,834</u>	<u>\$ 3,420</u>	<u>\$ 5,291</u>	<u>\$ 337,676</u>

**OTHER REPORTS**

**INDEPENDENT AUDITORS' REPORT ON INTERNAL  
CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE  
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

April 8, 2014

Honorable Mayor and City Council  
City of Scandia  
Scandia, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Scandia (the City) as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City of Scandia's basic financial statements, and have issued our report thereon dated April 8, 2014.

#### **Internal Control Over Financial Reporting**

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiencies described in the accompanying *Schedule of Findings and Responses* to be material weaknesses: 2013-1 and 2013-3.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiency described in the accompanying *Schedule of Findings and Responses* to be a significant deficiency: 2013-2.

#### **St. Cloud**

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320.251.0286

#### **Little Falls**

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Little Falls, MN 56345  
320.632.6311

#### **Albany**

115 6th St.  
P.O. Box 268  
Albany, MN 56307  
320.845.2940

#### **Maple Lake**

220 Hwy. 55 North, Ste. 4  
P.O. Box 385  
Maple Lake, MN 55358  
320.963.5414

#### **Monticello**

202 W. 3rd St.  
P.O. Box 755  
Monticello, MN 55362  
763.295.5070

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## City's Response to Findings

The City of Scandia's response to the findings identified in our audit is described in the accompanying *Schedule of Findings and Responses*. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



**SCHLENNER WENNER & CO.**  
St. Cloud, Minnesota

**CITY OF SCANDIA, MINNESOTA  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED DECEMBER 31, 2013**

**Finding 2013-1 Limited Segregation of Duties**

- Condition:* The City has limited segregation of accounting duties.
- Criteria:* The basic premise of proper segregation of duties is that no one employee should have access to both physical assets and the related accounting records or to all phases of the transaction.
- Cause:* There are a limited number of employees.
- Effect:* The City's lack of adequate segregation of accounting duties could adversely affect the City's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.
- Recommendation:* Although the number of employees may not be large enough to eliminate this deficiency, we recommend that the City evaluate current procedures and segregate where possible and implement compensating controls.
- Management's Response:* Management agrees with our recommendation.

**Finding 2013-2 Financial Statement Preparation**

- Condition:* Schlenner Wenner & Co. drafted the audited financial statements and related footnote disclosures for the City. These financial statements, including disclosures, were reviewed by management and management has taken responsibility for them.
- Criteria:* Internal controls over financial reporting should be in place to provide for the preparation of financial statements on an annual basis.
- Cause:* We believe management would require additional training in order to prepare the financial statements and year-end adjustments internally.
- Effect:* The outsourcing of these services is not unusual in entities of the size of the City of Scandia and is the result of management's cost benefit decision to rely on our expertise rather than incurring this internal resource cost. However, errors can occur in the financial statements that may not be detected by management.
- Recommendation:* While the City may not have adequate controls in place to eliminate this finding, the City should adopt a formal written internal control policy to document its annual review of the financial statements and year-end adjustments.
- Management's Response:* Management agrees with our recommendation.

**CITY OF SCANDIA, MINNESOTA  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED DECEMBER 31, 2013**

**Finding 2013-3 Material Audit Adjustments**

*Condition:* Audit adjustments were required to correct material misstatements identified in the trial balance presented for the audit.

*Criteria:* The City is required to report accurate financial information.

*Cause:* The City has not established controls to ensure all accounts are adjusted to their proper year-end balances in accordance with accounting principles generally accepted in the United States of America.

*Effect:* The misstatements in the trial balance presented for the audit resulted in the need to record audit adjustments to achieve fair financial statement presentation under accounting principles generally accepted in the United States of America.

*Recommendation:* We recommend management perform a thorough review of the trial balance prior to the audit and ensure all accounts have been properly adjusted at year-end.

*Management's Response:* Management agrees with our recommendation.

## INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE

April 8, 2014

Honorable Mayor and City Council  
City of Scandia  
Scandia, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Scandia, Minnesota (the City) as of and for the year ended December 31, 2013, and the related notes to the financial statements, and have issued our report thereon dated April 8, 2014.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minnesota Statute Section 6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for tax increment financing as the City does not have any tax increment districts.

In connection with our audit, nothing came to our attention that caused us to believe that the City failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for 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.

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



**SCHLENNER WENNER & CO.**  
St. Cloud, Minnesota

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