

CITY OF SANDSTONE, MINNESOTA
BASIC FINANCIAL STATEMENTS
For the Year Ended December 31, 2011

CITY OF SANDSTONE, MINNESOTA

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CITY OF SANDSTONE, MINNESOTA
INTRODUCTORY SECTION
December 31, 2011

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CITY OF SANDSTONE, MINNESOTA

ORGANIZATION

December 31, 2011

City Council

Randy Atterbury Mayor
Rene Stadin Deputy Mayor
Cathy Tauer Councilperson
Leonard Bonander Councilperson
Phillip Kester Councilperson

Administration

Sam Griffith City Administrator
Lois Newey Finance Officer

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CITY OF SANDSTONE, MINNESOTA
FINANCIAL SECTION
December 31, 2011

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MEMBERS
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MINNESOTA SOCIETY OF C.P.A.'S

INDEPENDENT AUDITOR'S REPORT

Members of the City Council
City of Sandstone, Minnesota

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 Sandstone, Minnesota, as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Sandstone, Minnesota's management. Our responsibility is to express an opinion 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 Sandstone, Minnesota, as of December 31, 2011, and the respective changes in financial position, and cash flows, where applicable, thereof, and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 14, during 2011 the City of Sandstone adopted Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 11 through 30 and 88 through 104 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government 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.



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Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Sandstone, Minnesota's financial statements as a whole. The introductory section, combining and individual nonmajor fund statements and schedules and supplementary financial information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and related directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion or provide any assurance on it.

Althoff & Nordquist, LLC

Althoff and Nordquist, LLC

Pine City, Minnesota

May 15, 2012

CITY OF SANDSTONE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2011

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Management's Discussion and Analysis

The Management Discussion and Analysis offers readers a financial statement overview and analysis of the financial activities for the City of Sandstone for the fiscal year ended December 31 2011. It is intended to serve as an introduction to the City of Sandstone's basic financial statements. The information can be reviewed in conjunction with the City's financial statements, (page 32), supplementary financial information (page 105) and with the notes beginning on (page 60).

Financial Statements Overview

The basic financial statements include three components-

1. Government-wide financial statements provide a broad overview of the finances that includes all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies.

Statement of net assets (page 32) presents information on all the assets and liabilities using the accrual basis of accounting with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of financial position improvements or deterioration.

Statement of activities (page 34) presents information showing how the net assets changed during the fiscal year. Revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods, i.e. earned but unused vacation leave.

2. Fund financial statements (starting on page 38) provide information for group related accounts used to maintain control over resources that have been segregated for specific activities or objectives.

Governmental funds financial statements focus on near-term inflows and outflows of spendable resources as well as balances of spendable resources available at the end of the fiscal year. Comparing this information with the government-wide activities assists the reader in understanding the long-term impact of near-term financing decisions.

Proprietary funds financial statements provide the same type of information as the government-wide financial statements, only in more detail.

3. Notes to the financial statements (starting on page 60) provide additional information for a broader understanding of the data provided in the government-wide and fund financial statements.

Required supplementary information and other reports are provided as supporting information as required.

The City of Sandstone currently accounts for eighteen individual governmental funds and five proprietary funds. Financial information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the general fund, capital projects fund, and EDA fund which are considered to be major funds for fiscal year 2011. Financial information from the remaining fifteen non-major funds is combined into a single, aggregated presentation. Fund financial information for nonmajor governmental funds is also provided in the form of individual and combining statements. Economic Development Authority (EDA) is a component unit pursuant to the criteria in the National Council on Government Accounting, Statement 3.

Restricted cash is reported for cash set aside each year for specific projects or operations. Types of general fund operations include the library, tree ordinance projects and KREEC project. The General Reserve Fund was closed in 2011 and moved to the General Fund as restricted cash. The capital, water, sewer and storm sewer funds have restricted cash for future repair and replacement projects.

Reserved fund balance reflects reserves for future projects resulting from city planning and development for future growth.

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Financial Highlights

- Total assets for governmental activities are \$7,830,185 and total liabilities are \$2,557,210 with total net assets of \$5,272,975 for fiscal year-end 2011. Of this amount, \$607,077 (unrestricted net assets) may be used to meet the City's ongoing obligations to residents and creditors in accordance with fund designations and fiscal policies.
- The governmental funds total net assets increased by \$110,910 due to the reduction of debt service through regular scheduled bond payments. Fund balance decreased in total governmental funds from \$2,490,146 in 2010 to \$2,322,245 in 2011.
- The unassigned fund balance for the general fund was \$572,281 or 48 percent of total general fund expenditures and 45% of fund operating revenues.
- Total governmental activity outstanding debt obligations decreased by \$327,000 and business-type activity decreased by \$150,000 (per reconciliation). The decrease reflects debt payments according to schedules.

Analysis of Financial Activities – Government wide

The capital projects included road improvements on Division and Old Military Roads. Bonding for the project will be completed in 2012. Manhole restoration and an Old School usage study were completed. A newer snowplow truck was purchased for the public works department.

The Tax Increment Financing district 1-2 Shavor Townhomes was decertified in 2011.

The fiscal year end December 31, 2011 reflects the required Government Accounting Standards Board (GASB) Statement 34 financial statement report model. Comparative analysis with prior years will be more readily available in future years.

Capital Assets

Investment in capital assets for governmental and business type activities as of December 31, 2011 is \$15,344,229 (net of accumulated depreciation). This includes; land, buildings, improvements, machinery and equipment, streets, alleys, sidewalks, water pipes, sewer mains and storm sewer.

Capital asset activities for the year end December 31, 2011, are as follows:

Governmental Activities	Beginning Balances	Increase	Decrease	Ending Balances
Total Capital Assets	10,236,034	319,179	--	10,555,213
Total Accumulated Depreciation	5,568,657	294,173	--	5,862,830
Total Capital Assets, Net of Depreciation	\$ 4,667,377	\$ 25,006	\$ --	\$ 4,692,383
Business - Type Activities				
Total Capital Assets	20,337,627	42,757	--	20,380,384
Total Accumulated Depreciation	9,183,418	545,120	--	9,728,538
Business - Type Capital Assets, Net	\$ 11,154,209	\$ (502,363)	\$ --	\$ 10,651,846

Governmental assets increased by \$319,179 with machinery and equipment (\$59,786 net), building improvements (\$49,828 net) and infrastructure of (\$209,565 net).

Business type activities total capital assets increased by \$42,757 in building improvements.

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Net Assets

The statement of net assets presents information on all of the City of Sandstone's assets and liabilities, with the difference between the two reported as net assets. Changes in net asset comparison for 2010 and 2011 can be used to observe the overall changing financial position. The chart below is a summary of net assets for the past two years.

Summary of Net Assets

	<u>Governmental Activities</u>		<u>Business- Type Activities</u>		<u>Total Primary Government</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Assets:						
Current and other assets	\$ 3,137,802	\$ 3,438,916	\$ 3,116,521	\$ 2,771,316	\$ 6,139,274	\$ 6,210,232
Capital assets	<u>4,692,383</u>	<u>4,667,377</u>	<u>10,651,846</u>	<u>11,160,213</u>	<u>15,459,278</u>	<u>15,827,590</u>
Total assets	<u>\$ 7,830,185</u>	<u>\$ 8,106,293</u>	<u>\$ 13,768,367</u>	<u>\$ 13,931,529</u>	<u>\$ 21,598,552</u>	<u>\$ 22,037,822</u>
Liabilities:						
Other liabilities	\$ 712,210	\$ 772,228	\$ 603,033	\$ 567,922	\$ 1,315,243	\$ 1,340,150
Long-term debt outstanding	<u>1,845,000</u>	<u>2,172,000</u>	<u>4,225,000</u>	<u>4,375,000</u>	<u>6,070,000</u>	<u>6,547,000</u>
Total liabilities	<u>2,557,210</u>	<u>2,944,228</u>	<u>4,828,033</u>	<u>4,942,922</u>	<u>7,385,243</u>	<u>7,887,150</u>
Net assets:						
Invested in capital assets, net of debt	2,847,383	2,495,377	6,426,846	6,785,213	9,274,229	9,280,590
Restricted	1,818,515	2,273,960	1,216,849	1,119,436	3,035,364	3,393,396
Unrestricted (deficit)	<u>607,077</u>	<u>392,728</u>	<u>1,296,639</u>	<u>1,083,958</u>	<u>1,903,716</u>	<u>1,476,686</u>
Total Net assets	<u>\$ 5,272,975</u>	<u>\$5,162,065</u>	<u>\$ 8,940,334</u>	<u>\$ 8,988,607</u>	<u>\$ 14,213,309</u>	<u>\$ 14,150,672</u>

The largest portion of the City of Sandstone's total net asset is invested in capital assets (net) of \$2,847,383. The investments in capital assets are used to provide services to citizens and are not available for future spending. The unrestricted net assets of \$607,077 may be used to meet the government's ongoing obligations to citizens and creditors.

The business type net assets are primarily invested in capital assets (\$6,426,846), which include all infrastructure and buildings of water, sewer, storm water, Wild River Apartments and golf.

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The City of Sandstone reported an increase in net assets for governmental activities of \$110,910 and a decrease in business-type activities of \$48,273 after transfers. Key elements of this increase and decrease are as follows:

Changes in Net Assets

	Governmental Activities		Business- Type Activities		Total Primary Government	
	2011	2010	2011	2010	2011	2010
Program revenues:						
Charges for services	\$ 268,475	\$ 300,909	\$ 1,349,892	\$ 1,314,143	\$ 1,618,367	\$ 1,615,052
Grants	834,567	852,032	--	--	834,567	852,032
General revenues:						
Property taxes	441,612	531,127	--	--	441,611	531,127
Other taxes	5,934	5,793	--	--	5,934	5,793
Other general revenues	22,340	39,859	48,680	42,135	71,020	81,994
Total revenues	<u>1,572,928</u>	<u>1,729,720</u>	<u>1,398,572</u>	<u>1,356,278</u>	<u>2,971,499</u>	<u>3,085,998</u>
Program expenses:						
General government	632,219	244,622	-	-	632,219	244,622
Public safety	258,781	262,309	-	-	258,781	262,309
Public works	223,033	236,174	-	-	223,033	236,174
Culture and Recreation	24,070	32,921	-	-	24,070	32,921
Other general expenditures	148,225	147,090	-	-	148,225	147,090
Debt service	60,959	55,696	-	-	60,959	55,696
Capital expenditures	200,196	427,805	-	-	200,196	427,805
Water	--	--	209,369	193,457	209,369	193,457
Sewer	--	--	312,005	299,907	312,005	299,907
Storm water	--	--	27,461	34,798	27,461	34,798
Golf	--	--	187,230	214,564	187,230	214,564
Wild River Apartments	--	--	625,315	619,754	625,316	619,754
Total expenses	<u>1,547,483</u>	<u>1,406,617</u>	<u>1,361,380</u>	<u>1,362,480</u>	<u>2,908,864</u>	<u>2,769,097</u>
Excess (deficiency) before special items and transfers						
	25,445	323,103	37,192	(6,202)	62,635	316,901
Transfers in (out)	85,465	80,571	(85,465)	(80,571)	--	--
Increase (decrease) in net assets	<u>\$ 110,910</u>	<u>\$ 403,674</u>	<u>\$ (48,273)</u>	<u>\$ (86,773)</u>	<u>\$ 62,635</u>	<u>\$ 316,901</u>

Charges for services revenues in 2011 include administration charges for departments under governmental activities.

Business-type activities showed a decrease in net assets of \$48,273 due to revenues more than expenses of \$37,192 being offset by net transfers out of \$85,465.

More detailed governmental and business-type information is found in the balance sheet and statement of revenue, expenditure and changes in fund balance.

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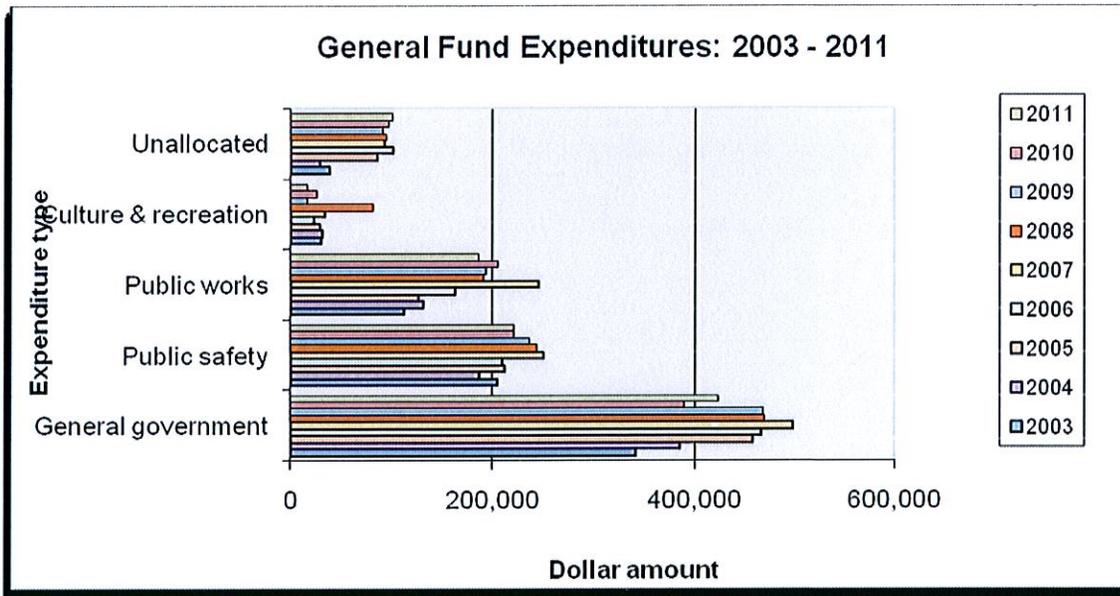
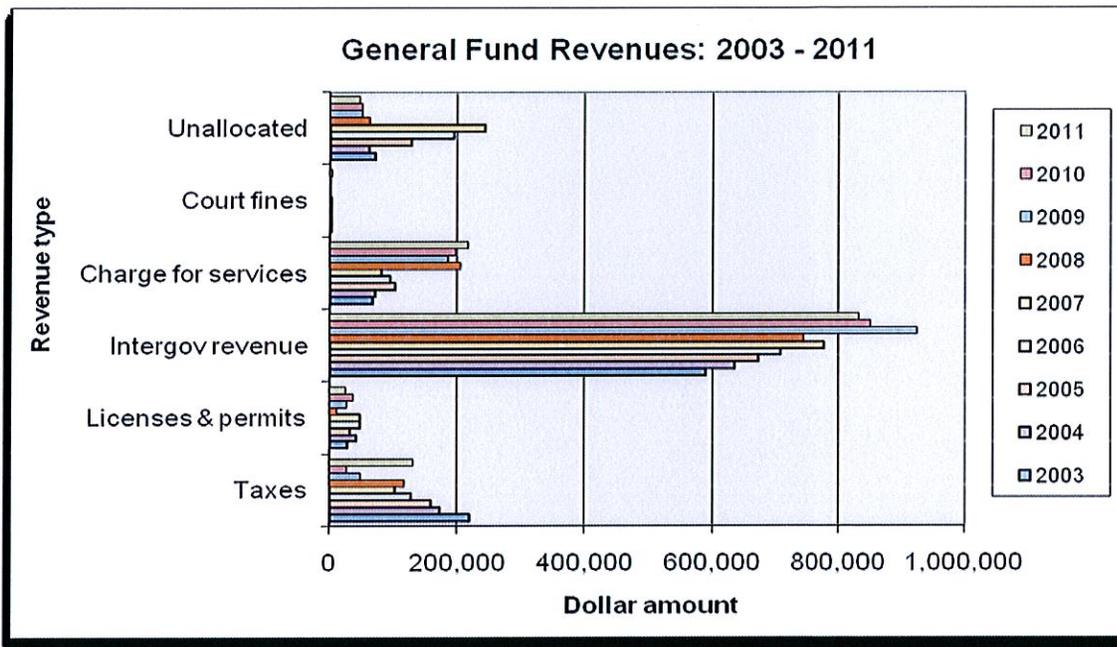
General Fund

The general fund is used to account for the ordinary operations of the city that are financed from taxes and other general revenues.

The general fund cash balance increased by \$323,876 from \$1,147,706 in fiscal year 2010 to \$1,471,582 in 2011. This increase includes the restricted cash (\$240,968) from amalgamating the General Reserve to the General Fund in 2011. Local government aid decreased from \$852,032 in 2010 to \$834,567 in 2011. There was a decrease in licenses and permits of \$11,195. Charges for services increased \$19,669. An overall increase of \$62,424 in revenue over budget and decrease of \$151,742 in expenditures to budget reflects a net increase of \$89,318 towards cash balance.

With the minor increase of expenditures from \$941,097 in 2010 to \$947,637 in 2011 and revenues increase by \$90,371, the general fund balance increased by \$326,917 from \$1,156,652 in 2010 to \$1,483,569 in 2011.

The following two graphs show the general fund revenues and expenditures comparison from 2003 through 2011.



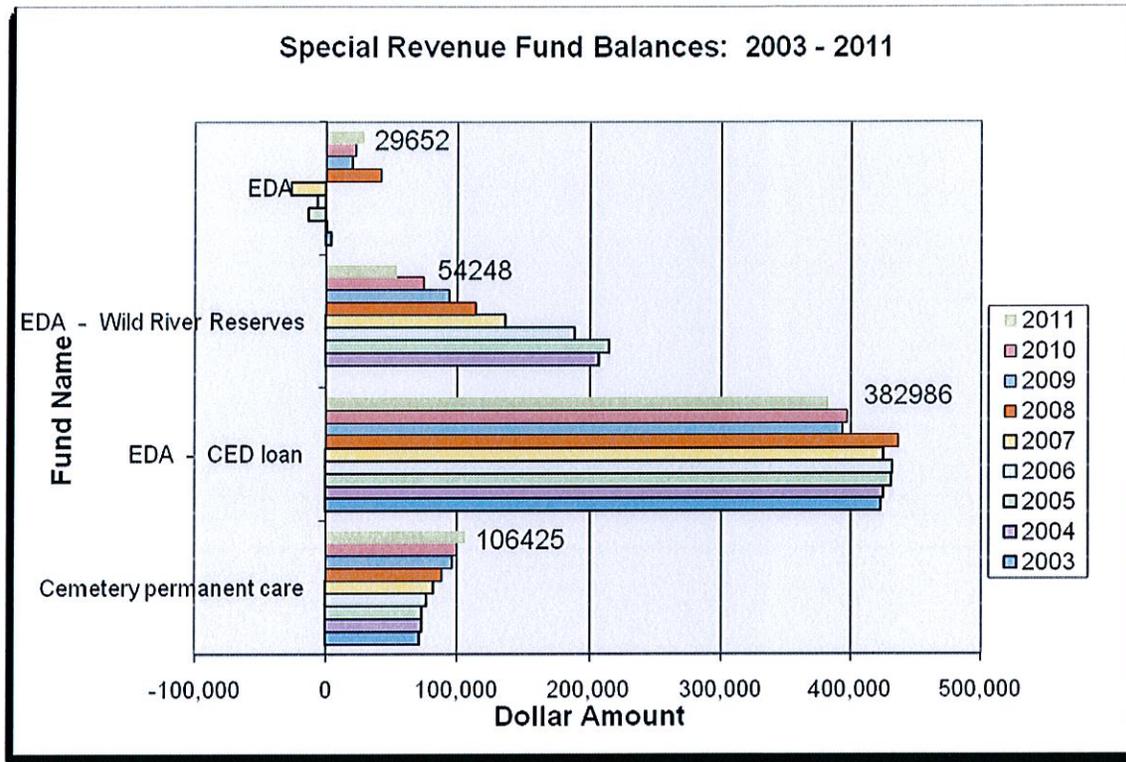
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Special Revenue Funds

Special revenue funds are used to account for revenues from specific taxes or other earmarked revenue sources that by law are designed to finance particular functions or activities of government.

The City of Sandstone has four non-major special revenue funds: EDA CED loan fund, Cemetery perpetual care, EDA wild river capital expense, EDA wild river reserve (EDA wild river capital expense and reserve funds combined on graph below). EDA operational fund remains a major fund for 2011.

Special revenue funds reflect minor variations between fund balances from fiscal year 2003 to 2011.



The General reserves fund was closed in 2011 and the cash is restricted in the General Fund.

The EDA Wild River Reserve fund balance decreased by \$8,583. Bond payment shortfall of \$148,225 exceeded the taxes collected of \$141,167. Professional services and arbitrage monitoring expense totaled \$1,525.

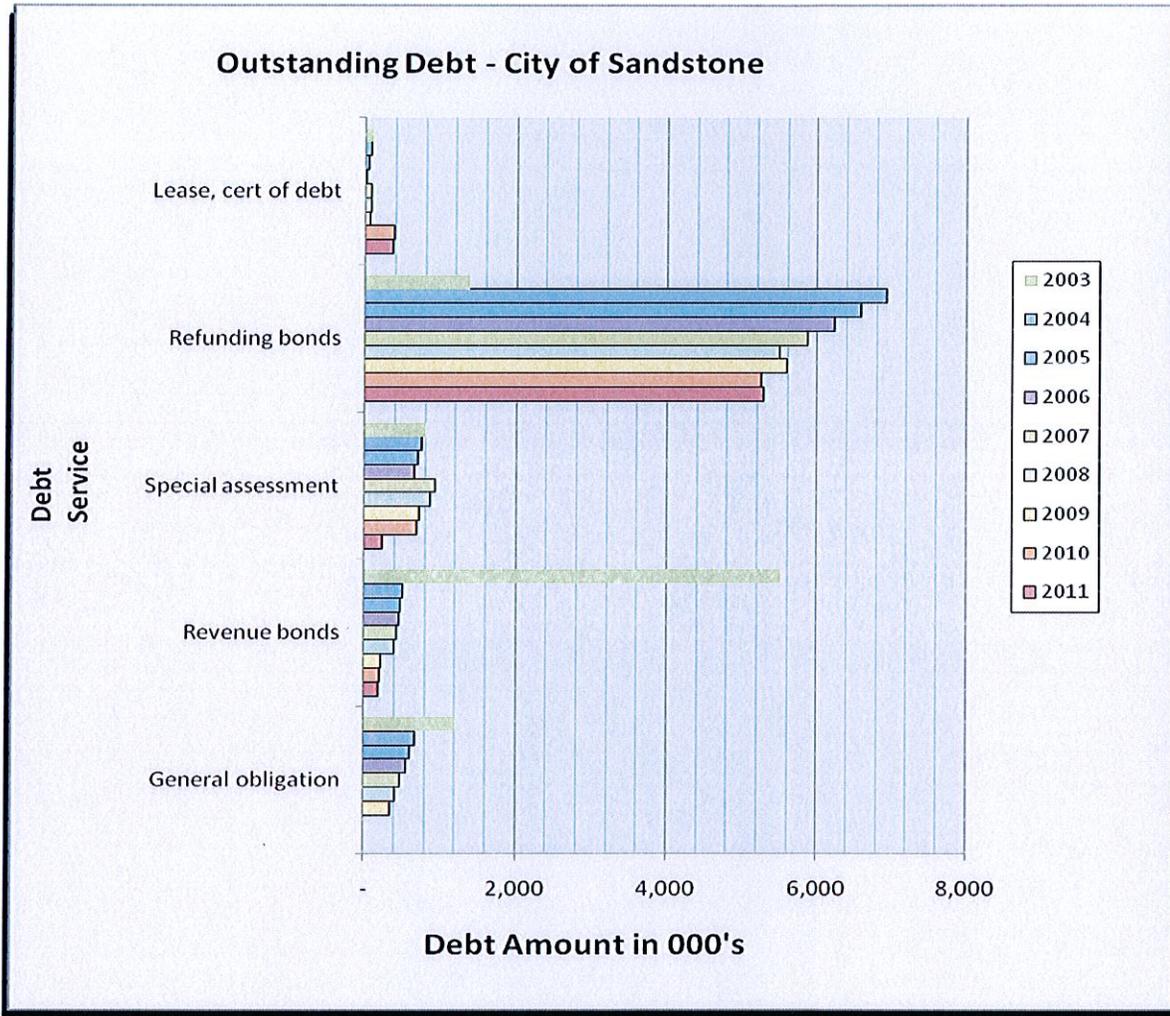
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Debt Service Funds

The debt service funds are established to finance and account for the payment of interest and principal on all general obligation debt, serial and term.

The City of Sandstone currently has eight debt service funds.

The following chart reflects the types of bonds and bond outstanding balances for fiscal year end 2003-2011 for the City of Sandstone.



The City of Sandstone did not retire or bond any additional debt in 2011.

The City of Sandstone's total net bonds and notes payable principal decreased by \$327,000 during the 2011 fiscal year. The decrease is the result of scheduled debt payments. The fiscal year end principal balance changed from \$2,172,000 in 2010 to \$1,845,000 in 2011.

The Economic Development Authority (EDA) principal debt was reduced by \$150,000 from \$4,375,000 in 2010 to \$4,225,000 in 2011.

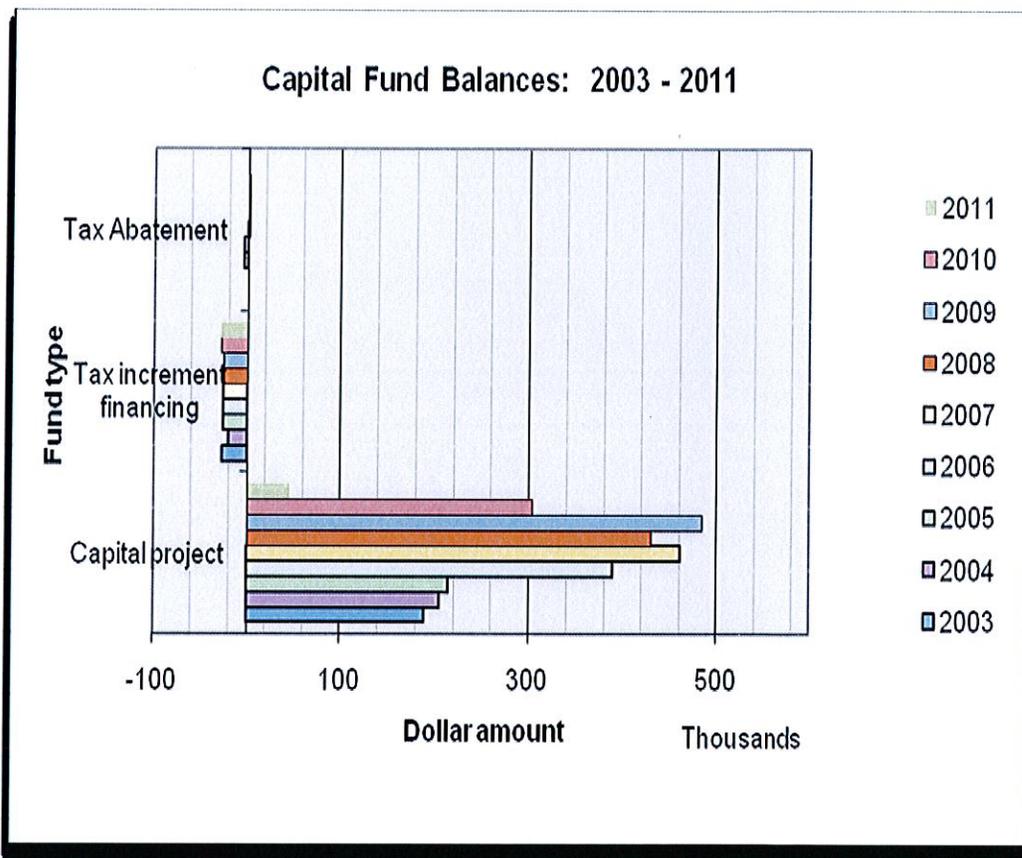
A more detailed breakdown of all obligations can be found in the supplementary financial information section.

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Capital Fund

Capital funds are created and used to account for all resources to be used for the construction or acquisition of designated fixed assets by a governmental unit.

Capital funds include three funds of which capital projects remains a major fund for fiscal year 2011. The tax abatement fund was created in 2006 to abate taxes for the Kettle River Townhouse. The tax increment fund which was first received in 1996 and will be decertified December 31, 2011.



The capital projects fund balance decreased from \$304,571 in 2010 to \$45,197 in 2011.

Expenditures for the capital project fund for fiscal year 2011 included street overlays, street maintenance and manhole restoration totaling approximately \$30,528. Major purchases included the public works snow plow (\$45,688), and the fire department purchased F350 truck (\$8,037).

Other capital expenditures included the Old Military Road and Division Street upgrades of \$181,833. This will be financed with bonding in 2012. The demolition costs for the Milk Drying Plant building of \$149,115 was expensed with qualifying costs assessed to the property owner in 2012. A building for salt storage (\$35,000) was built at the new Public Works facility that was purchased in 2010.

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Proprietary Funds

Proprietary funds are sometimes referred to as 'business' or 'commercial-type' funds. The fund is established to finance and account for the acquisition, operation, and maintenance of governmental facilities and services that are predominantly self-supporting.

The City of Sandstone has five proprietary funds: water, sewer, storm water, golf and wild river apartments.

Proprietary Funds overall operations 2008 to 2011 comparison:

	2011 Total	2010 Total	2009 Total	2008 Total	2010-11 Change
Operating revenues:					
Sales & charges for services	1,346,871	1,311,124	1,280,273	1,301,967	35,747
Unallocated revenue	3,021	3,019	2,177	3,779	2
Total operating revenues	1,349,892	1,314,143	1,282,450	1,305,746	35,749
Operating expenses:					
Maintenance and operations	716,642	703,801	749,142	699,310	12,841
Depreciation	436,076	437,553	451,028	464,805	(1,477)
Total Operating Expenses	1,152,718	1,141,354	1,200,170	1,165,115	11,364
Operating Income (Loss)	197,174	172,789	82,280	141,631	24,385
Non-operating revenues (expenses):					
Interest earned	48,680	42,135	71,695	58,410	6,545
Interest expense	(208,663)	(218,127)	(221,943)	(226,485)	9,464
Agent fees	--	(3,000)	(3,000)	(3,000)	3,000
Total non-operating revenues (exp)	(159,983)	(178,992)	(153,248)	(171,075)	19,009
Net Income (loss) before transfers	37,191	(6,203)	(70,968)	(29,444)	43,394
Transfers In	148,225	148,225	148,219	149,814	--
Transfers out	(233,690)	(228,796)	(261,693)	(277,038)	(4,894)
Changes in net assets	(48,274)	(86,774)	(184,442)	(156,668)	38,500
Total net assets - beginning	8,988,608	9,075,381	9,259,823	9,416,491	(86,773)
Total net assets - ending	8,940,334	8,988,607	9,075,381	9,259,823	(48,273)
Operating Revenue – increase		\$ 35,749			
Operating Expense - increase		\$ 11,364			
Non-operating Revenue – decrease (expense)		\$ 19,009			

Net assets decreased by \$48,273. The decreases came from sewer, water and golf funds.

Wild River apartments fund operating revenues increased by \$65,104 and the operating expenses increased by 16,637. They continue to require the same tax levy for debt service of \$150,000 for 2011 as in 2009 and 2010.

Golf Fund maintenance and operation expenses decreased by \$25,945. There were no capital improvements or equipment expenditures; however expenses and interfund CED loan payments have reduced the net assets from (\$160,860) in 2010 to (\$233,048) in 2011 and increasing the cash deficit of (\$230,210) in 2010 to (\$292,791) in 2011. The Golf Fund has experienced an operating loss for the past eleven years. The City has entered into a purchase agreement for the sale of the golf course in 2012.

Net assets for the Water Fund decreased \$39,839 and Sewer Fund decreased \$58,113. Storm Water Fund increased net assets by \$7,648. More detailed information can be found for the proprietary funds in the statement of revenues, expenses, and changes in fund net assets.

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In Conclusion

The City of Sandstone is in a satisfactory financial position. The City has routinely put aside resources in the past eleven years for future capital expansion as well as for the needs of the water, storm water and sewer utilities.

The City remains involved in the Northern Lights Express passenger rail project and have updated concept plans for a rail maintenance facility on two sites and a station stop.

Contract signed and work began on demolition of a large hazardous commercial property to be assessed in 2012.

The City negotiated the purchase agreement for the sale of the Golf Course for closing in 2012.

The EDA took possession of the Old Sandstone School after default of loan payments in 2009. Studies were undertaken to determine costs to renovate, mothball or demolish. The City entered into agreement with a non-profit who will be studying the purchase and reuse of the building.

The EDA purchased property for future access to the airport land for potential business development. The site was platted the Grant-Knowles Plat. Work on a marketing plan continues.

Work began on the sale or the refinancing of the Wild River Apartments. Special legislation was prepared to allow sale of the property.

This financial report is designed to provide a general overview of the City of Sandstone finances. Questions concerning any of the information provided in this report can be addressed by contacting the office of the City Administrator or Finance Officer at 119 Fourth Street, Sandstone, Minnesota 55072.

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CITY OF SANDSTONE, MINNESOTA
BASIC FINANCIAL STATEMENTS
For the Year Ended December 31, 2011

CITY OF SANDSTONE, MINNESOTA

Statement 1

STATEMENT OF NET ASSETS

December 31, 2011

(With Comparative Amounts for December 31, 2010)

	Governmental Activities	Business - Type Activities	2011 Total	2010 Total
ASSETS				
Cash & cash equivalents	\$ 1,672,118	\$ 638,658	\$ 2,310,776	\$ 2,100,846
Cash with Fiscal Agent	--	246,866	246,866	152,843
Investments	122,560	966,009	1,088,569	659,624
Accounts receivable	63,576	46,049	109,625	134,153
Delinquent property tax	44,566	--	44,566	48,186
Special assessments receivable	4,298	5,151	9,449	50,209
Special assessments deferred	115,002	--	115,002	150,102
Due from other funds	167,984	516,766	684,750	1,116,138
Bond discount	8,361	--	8,361	10,581
Inventory	--	1,803	1,803	3,401
Prepaid expenses	19,208	13,339	32,547	32,713
Restricted cash	326,700	566,831	893,531	1,400,729
Restricted investments	593,429	--	593,429	350,707
Deferred charges	--	115,049	115,049	--
Capital assets, net	4,692,383	10,651,846	15,344,229	15,827,590
Total assets	<u>\$ 7,830,185</u>	<u>\$ 13,768,367</u>	<u>\$ 21,598,552</u>	<u>\$ 22,037,822</u>
LIABILITIES				
Accounts payable	\$ 3,531	\$ 14,225	\$ 17,756	\$ 22,677
Due to other funds	628,009	454,626	1,082,635	1,116,138
Accrued expenses	19,712	--	19,712	8,596
Deferred revenue	--	5,150	5,150	4,593
Security deposits	--	44,470	44,470	32,580
Interest payable	60,958	84,562	145,520	155,566
Non current liabilities:				
Due within one year	330,000	165,000	495,000	477,000
Due in more than one year	1,515,000	4,060,000	5,575,000	6,070,000
Total liabilities	<u>2,557,210</u>	<u>4,828,033</u>	<u>7,385,243</u>	<u>7,887,150</u>
NET ASSETS				
Invested in capital assets, net of related debt	2,847,383	6,426,846	9,274,229	9,280,590
Restricted for:				
Special revenue	323,311	--	323,311	581,840
Debt service	247,959	--	247,959	224,508
Capital projects	553,852	--	553,852	748,778
Other purposes	693,393	1,216,849	1,910,242	1,838,270
Unrestricted	607,077	1,296,639	1,903,716	1,476,686
Total net assets	<u>5,272,975</u>	<u>8,940,334</u>	<u>14,213,309</u>	<u>14,150,672</u>
Total Liabilities and Net Assets	<u>\$ 7,830,185</u>	<u>\$ 13,768,367</u>	<u>\$ 21,598,552</u>	<u>\$ 22,037,822</u>

See Notes to Financial Statements.

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CITY OF SANDSTONE, MINNESOTA

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2011

(With Comparative Amounts for the Year Ended December 31, 2010)

<u>Functions/Programs</u>	<u>Program Revenues</u>			
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental Activities:				
General government	\$ 632,219	\$ 218,059	\$ 834,567	\$ --
Public safety	258,781	--	--	--
Public works	223,033	--	--	--
Culture and recreation	24,070	--	--	--
Debt service	60,959	--	--	--
Capital expenditure	200,196	--	--	--
Unallocated	148,225	50,416	--	--
Total Governmental Activities	1,547,483	268,475	834,567	--
Business - Type Activities:				
Golf course	183,415	115,042	--	--
Water utility	209,369	213,971	--	--
Sewer utility	312,005	392,088	--	--
Storm water	27,461	37,482	--	--
Wild River apartment	420,468	591,309	--	--
Total Business - Type Activities	1,152,718	1,349,892	--	--
General Revenues:				
Property tax				
Tax increments				
Interest and investment earnings				
Transfers				
Total General Revenues and Transfers				
Change in Net Assets				
Prior period adjustment				
Net Assets, Beginning of Year				
Net Assets, End of Year				

See Notes to Financial Statements.

Net (Expenses) Revenues
and Changes in Net Assets

Governmental Activities	Business - Type Activities	2011 Total	2010 Total
420,407	\$ --	\$ 420,407	\$ 525,340
(258,781)	--	(258,781)	(262,309)
(223,033)	--	(223,033)	(236,174)
(24,070)	--	(24,070)	(32,921)
(60,959)	--	(60,959)	(56,197)
(200,196)	--	(200,196)	(87,805)
(97,809)	--	(97,809)	(103,610)
(444,441)	--	(444,441)	(253,676)
--	(68,373)	(68,373)	(79,003)
--	4,602	4,602	12,370
--	80,083	80,083	110,183
--	10,021	10,021	1,661
--	170,841	170,841	(93,549)
--	197,174	197,174	(48,338)
441,612	\$ --	\$ 441,612	\$ 531,127
5,934	--	5,934	5,793
22,340	(159,982)	(137,642)	81,994
85,465	(85,465)	--	--
555,351	(245,447)	309,904	618,914
110,910	(48,273)	62,637	316,900
5,162,065	8,988,607	14,150,672	13,833,772
\$ 5,272,975	\$ 8,940,334	\$ 14,213,309	\$ 14,150,672

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CITY OF SANDSTONE, MINNESOTA
FUND FINANCIAL STATEMENTS
December 31, 2011

CITY OF SANDSTONE, MINNESOTA
Governmental Funds
BALANCE SHEET
December 31, 2011

	General Fund	Capital Project Fund
	<u> </u>	<u> </u>
ASSETS		
Cash & cash equivalents	\$ 1,015,183	\$ --
Investments	100,501	--
Accounts receivable	16,445	--
Delinquent property tax	10,873	6,575
Special assessments	461	482
Special assessments deferred	461	2,217
Due from other funds	135,381	30,743
Bond discount	--	--
Prepaid expense	17,990	1,218
Restricted cash	220,516	372,913
Restricted investments	--	--
Total Assets	<u>\$ 1,517,811</u>	<u>\$ 414,148</u>
 LIABILITIES & FUND BALANCE		
<u>Liabilities:</u>		
Accounts payable	\$ 2,735	\$ --
Accrued expenses	19,712	--
Due to other funds	--	359,677
Deferred revenue	11,795	9,274
Total Liabilities	<u>34,242</u>	<u>368,951</u>
 <u>Fund Balance:</u>		
Nonspendable	17,990	--
Restricted	62,382	45,197
Committed	--	--
Assigned	830,916	--
Unassigned	572,281	--
Total fund balance	<u>1,483,569</u>	<u>45,197</u>
Total liabilities and fund balances	<u>\$ 1,517,811</u>	<u>\$ 414,148</u>

See Notes to Financial Statements.

EDA Fund	Nonmajor Governmental Funds	Total Governmental Funds
\$ 110,152	\$ 546,783	\$ 1,672,118
--	22,059	122,560
--	46,976	63,421
155	27,118	44,721
--	3,355	4,298
--	112,324	115,002
--	137,241	303,365
--	8,361	8,361
--	--	19,208
--	--	593,429
250,000	76,700	326,700
<u>\$ 360,307</u>	<u>\$ 980,917</u>	<u>\$ 3,273,183</u>
\$ --	\$ 796	\$ 3,531
--	--	19,712
330,500	73,213	763,390
155	143,081	164,305
<u>330,655</u>	<u>217,090</u>	<u>950,938</u>
--	--	17,990
--	220,168	327,747
--	--	--
29,652	543,659	1,404,227
--	--	572,281
<u>29,652</u>	<u>763,827</u>	<u>2,322,245</u>
<u>\$ 360,307</u>	<u>\$ 980,917</u>	<u>\$ 3,273,183</u>

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**RECONCILIATION OF NET ASSETS IN THE
GOVERNMENT-WIDE FINANCIAL STATEMENTS AND FUND BALANCE
IN THE FUND BASIC FINANCIAL STATEMENTS**

December 31, 2011

(With Comparative Amounts for December 31, 2010)

	<u>2011</u>	<u>2010</u>
Amounts reported for governmental activities in the Statements of Net Assets are different because:		
Total Governmental Fund Balance	\$ 2,322,245	\$ 2,490,146
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the Funds.		
Governmental Capital Assets	10,555,213	10,236,034
Less: Accumulated Depreciation	<u>(5,862,830)</u>	<u>(5,568,657)</u>
	<u>4,692,383</u>	<u>4,667,377</u>
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the Funds.		
Deferred Revenue	<u>164,305</u>	<u>243,903</u>
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.		
Bonds Payable	(1,845,000)	(2,172,000)
Bond Interest Payable	<u>(60,958)</u>	<u>(67,361)</u>
	<u>(1,905,958)</u>	<u>(2,239,361)</u>
Net Assets of Governmental Activities	<u>\$ 5,272,975</u>	<u>\$ 5,162,065</u>

See Notes to Financial Statements.

CITY OF SANDSTONE, MINNESOTA

Governmental Funds

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

For the Years Ended December 31, 2011

	General Fund	Capital Project Fund
REVENUES		
Property taxes	\$ 129,909	\$ 10,096
Tax increments	--	--
Special assessments	735	(5,106)
Licenses & permits	25,967	--
Intergovernmental revenue	834,567	--
Charges for services	218,059	--
Court fines	4,487	--
Interest	8,194	6,026
Rent	18,783	--
Miscellaneous	19,343	8,953
Total Revenues	<u>1,260,044</u>	<u>19,969</u>
EXPENDITURES		
General government	429,352	--
Public safety	221,023	--
Public works	186,327	--
Culture & recreation	16,316	--
Miscellaneous	94,620	--
Debt service	--	--
Capital expenditures	--	497,617
Total Expenditures	<u>947,638</u>	<u>497,617</u>
Excess (deficiency) of revenues over (under) expenditures	<u>312,406</u>	<u>(477,648)</u>
OTHER FINANCING RESOURCES (USES)		
Transfer in	247,385	218,274
Transfer (out)	(232,874)	--
Total other financing sources (uses)	<u>14,511</u>	<u>218,274</u>
Net change in fund balances	326,917	(259,374)
Fund balances - beginning	<u>1,156,652</u>	<u>304,571</u>
Fund balances - ending	<u>\$ 1,483,569</u>	<u>\$ 45,197</u>

See Notes to Financial Statements.

EDA Fund	Nonmajor Governmental Funds	Total Governmental Funds
\$ 10,009	\$ 284,609	\$ 434,623
--	5,934	5,934
--	41,724	37,353
--	--	25,967
--	--	834,567
--	--	218,059
--	--	4,487
412	7,708	22,340
--	--	18,783
100	22,020	50,416
<u>10,521</u>	<u>361,995</u>	<u>1,652,529</u>
--	--	429,352
--	--	221,023
--	--	186,327
--	--	16,316
3,507	41,012	139,139
--	394,362	394,362
15,504	6,255	519,376
<u>19,011</u>	<u>441,629</u>	<u>1,905,895</u>
(8,490)	(79,634)	(253,366)
15,600	238,100	719,359
--	(401,020)	(633,894)
<u>15,600</u>	<u>(162,920)</u>	<u>85,465</u>
7,110	(242,554)	(167,901)
<u>22,542</u>	<u>1,006,381</u>	<u>2,490,146</u>
<u>\$ 29,652</u>	<u>\$ 763,827</u>	<u>2,322,245</u>

**RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

December 31, 2011

(With Comparative Amounts for December 31, 2010)

	<u>2011</u>	<u>2010</u>
Amounts reported for governmental activities in the Statements of Activities are different because:		
Net Changes in Fund Balance - Total Governmental Funds	<u>\$ (167,901)</u>	<u>\$ (353,296)</u>
Governmental funds reported capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Acquisition of assets	319,179	716,098
Depreciation expense	<u>(294,173)</u>	<u>(282,673)</u>
	<u>25,006</u>	<u>433,425</u>
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Deferred revenue	<u>(79,598)</u>	<u>31,709</u>
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		
Proceeds from issuance of bonds	--	(340,000)
Principal retirement on long-term debt	327,000	612,000
Accrued interest on bonds payable	<u>6,403</u>	<u>19,836</u>
	<u>333,403</u>	<u>291,836</u>
Change in net assets of Governmental Activities	<u>\$ 110,910</u>	<u>\$ 403,674</u>

See Notes to Financial Statements.

General Fund

Statement of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual

For the Year Ended December 31, 2011

	Original and Amended Budget Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Taxes	\$ 145,758	\$ 129,909	\$ (15,849)
Special assessments	--	735	735
Licenses & permits	24,800	25,967	1,167
Intergovernmental revenue	849,775	834,567	(15,208)
Charges for services	165,725	218,059	52,334
Court fines	2,000	4,487	2,487
Miscellaneous	34,300	46,320	12,020
Total Revenues	<u>1,222,358</u>	<u>1,260,044</u>	<u>37,686</u>
EXPENDITURES			
General government:			
Mayor & council	2,100	3,016	916
Executive	238,560	243,915	5,355
Elections & voter registration	500	341	(159)
Finance administration	78,935	85,213	6,278
Legal fees	34,000	38,993	4,993
Planning & zoning	200	190	(10)
City engineer	5,000	10,918	5,918
City hall	29,900	26,983	(2,917)
Economic development	28,000	19,783	(8,217)
Total general government	<u>417,195</u>	<u>429,352</u>	<u>12,157</u>
Public Safety:			
Safety	4,300	1,972	(2,328)
Police protection	107,310	93,896	(13,414)
Fire protection	127,765	109,145	(18,620)
Building inspections	18,100	14,876	(3,224)
Animal control	650	1,134	484
Total public safety	<u>258,125</u>	<u>221,023</u>	<u>(37,102)</u>
Public works:			
Administration			
Employee services	165,335	160,764	(4,571)
Street lighting	28,000	25,563	(2,437)
Total public works	<u>193,335</u>	<u>186,327</u>	<u>(7,008)</u>
Culture & Recreation:			
Park and recreation	13,000	9,624	(3,376)
Library	3,600	3,606	6
Airport	2,600	3,086	486
Total culture & recreation	<u>19,200</u>	<u>16,316</u>	<u>(2,884)</u>

See Notes to Financial Statements.

Statement of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
 For the Years Ended December 31, 2011

	Original and Amended Budget Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
Expenditures (Continued)			
Miscellaneous			
Cemetery	8,100	9,717	1,617
Non-departmental	63,901	84,903	21,002
Total miscellaneous	<u>72,001</u>	<u>94,620</u>	<u>22,619</u>
Total expenditures	<u>959,856</u>	<u>947,638</u>	<u>(12,218)</u>
Excess of revenues over (under) expenditures	<u>262,502</u>	<u>312,406</u>	<u>49,904</u>
Other Financing Sources (Uses):			
Bond proceeds			
Transfer in	10,190	247,385	237,195
Transfer (out)	(201,470)	(232,874)	(31,404)
Total other financing sources (uses)	<u>(191,280)</u>	<u>14,511</u>	<u>205,791</u>
Net change in fund balance	71,222	326,917	255,695
Fund balance -beginning	<u>1,156,652</u>	<u>1,156,652</u>	<u>--</u>
Fund balance - ending	<u>\$ 1,227,874</u>	<u>\$ 1,483,569</u>	<u>\$ 255,695</u>

See Notes to Financial Statements.

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CITY OF SANDSTONE, MINNESOTA
Proprietary Funds
STATEMENT OF NET ASSETS
December 31, 2011

	Business - Type Activities - Enterprise Funds			
	Golf Fund	Water Utility Fund	Sewer Utility Fund	Storm Water Fund
ASSETS				
Current Assets:				
Cash & cash equivalents	\$ --	\$ 507,381	\$ --	\$ 131,077
Cash with Fiscal Agent	--	--	--	--
Investments	--	--	966,009	--
Accounts receivable	92	7,583	26,112	3,530
Due from other funds	--	--	516,766	--
Inventory	1,803	--	--	--
Prepaid expenses	3,378	1,042	1,150	--
Special assessments receivable	--	3,090	2,061	--
Restricted cash	1,924	--	564,907	--
Total current assets	7,197	519,096	2,077,005	134,607
Noncurrent assets:				
Deferred charges	--	--	--	--
Capital assets:				
Land	--	--	--	--
Plant in service	417,897	4,543,341	9,921,957	995,147
Equipment and fixtures	90,246	--	45,144	--
Less: allowance for depreciation	(398,864)	(2,486,585)	(4,538,339)	(571,849)
Total noncurrent assets	109,279	2,056,756	5,428,762	423,298
Total assets	\$ 116,476	\$ 2,575,852	\$ 7,505,767	\$ 557,905

See Notes to Financial Statements.

Wild River Apartment Fund	Total
200	\$ 638,658
246,866	246,866
--	966,009
8,732	46,049
--	516,766
--	1,803
7,769	13,339
--	5,151
--	566,831
263,567	3,001,472
115,049	115,049
157,015	157,015
4,209,637	20,087,979
--	135,390
(1,732,901)	(9,728,538)
2,748,800	10,766,895
3,012,367	\$ 13,768,367

CITY OF SANDSTONE, MINNESOTA
Proprietary Funds
STATEMENT OF NET ASSETS
December 31, 2011

	Business - Type Activities - Enterprise Funds			
	Golf Fund	Water Utility Fund	Sewer Utility Fund	Storm Water Fund
LIABILITIES				
Current Liabilities:				
Cash in bank-(overdraft)	\$ 292,781	\$ --	\$ 105,104	\$ --
Accounts payable	2	3	--	--
Bonds payable-current	--	--	--	--
Deferred revenue	--	3,090	2,060	--
Due to other funds	56,741	--	--	--
Interest payable	--	--	--	--
Security deposits	--	--	--	--
Total Current Liabilities	349,524	3,093	107,164	--
Noncurrent liabilities:				
Bonds payable	--	--	--	--
Total noncurrent liabilities	--	--	--	--
Total liabilities	349,524	3,093	107,164	--
NET ASSETS				
Invested in capital assets, net of related debt	109,279	2,056,756	5,428,762	423,298
Restricted for:				
Restricted assets	1,924	295,551	907,184	--
Prepaid items	3,378	1,042	--	--
Unrestricted	(347,629)	219,410	1,062,657	134,607
Total net assets	(233,048)	2,572,759	7,398,603	557,905
Total Liabilities and Net Assets	\$ 116,476	\$ 2,575,852	\$ 7,505,767	\$ 557,905

See Notes to Financial Statements.

Wild River Apartment Fund	Total
--	\$ 397,885
14,220	14,225
165,000	165,000
--	5,150
--	56,741
84,562	84,562
44,470	44,470
<u>308,252</u>	<u>768,033</u>
4,060,000	4,060,000
<u>4,060,000</u>	<u>4,060,000</u>
<u>4,368,252</u>	<u>4,828,033</u>
(1,591,249)	6,426,846
--	1,204,659
7,770	12,190
227,594	1,296,639
<u>(1,355,885)</u>	<u>8,940,334</u>
<u>3,012,367</u>	<u>\$ 13,768,367</u>

CITY OF SANDSTONE, MINNESOTA

Proprietary Funds

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

For the Year Ended December 31, 2011

	Business- Type Activities - Enterprise Funds			
	Golf Fund	Water Utility Fund	Sewer Utility Fund	Storm Water Fund
Operating revenues:				
Sales & charges for services	\$ 114,087	\$ 212,593	\$ 391,400	\$ 37,482
Miscellaneous	955	1,378	688	--
Total operating revenues	<u>115,042</u>	<u>213,971</u>	<u>392,088</u>	<u>37,482</u>
Operating expenses:				
Maintenance and operations	166,831	122,459	108,597	7,274
Depreciation	16,584	86,910	203,408	20,187
Total Operating Expenses	<u>183,415</u>	<u>209,369</u>	<u>312,005</u>	<u>27,461</u>
Operating Income (Loss)	<u>(68,373)</u>	<u>4,602</u>	<u>80,083</u>	<u>10,021</u>
Nonoperating revenues (expenses):				
Interest earned	--	5,659	42,394	627
Interest expense	(3,815)	--	--	--
Total nonoperating revenues (expenses)	<u>(3,815)</u>	<u>5,659</u>	<u>42,394</u>	<u>627</u>
Net Income (Loss) Before Transfers and Contributions	(72,188)	10,261	122,477	10,648
Transfers in	--	--	--	--
Transfers out	--	(50,100)	(180,590)	(3,000)
Changes in net assets	<u>(72,188)</u>	<u>(39,839)</u>	<u>(58,113)</u>	<u>7,648</u>
Total net assets - beginning	<u>(160,860)</u>	<u>2,612,598</u>	<u>7,456,716</u>	<u>550,257</u>
Total net assets - ending	<u>\$ (233,048)</u>	<u>\$ 2,572,759</u>	<u>\$ 7,398,603</u>	<u>\$ 557,905</u>

See Notes to Financial Statements.

Wild River Apartment Fund	Total
\$ 591,309	\$ 1,346,871
--	3,021
591,309	1,349,892
311,480	716,641
108,987	436,076
420,467	1,152,717
170,842	197,175
--	48,680
(204,848)	(208,663)
(204,848)	(159,983)
(34,006)	37,192
148,225	148,225
--	(233,690)
114,219	(48,273)
(1,470,104)	8,988,607
\$ (1,355,885)	\$ 8,940,334

CITY OF SANDSTONE, MINNESOTA
Proprietary Funds
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2011

	<u>Business-Type Activities - Enterprise Funds</u>		
	<u>Golf Fund</u>	<u>Water Utility Fund</u>	<u>Sewer Utility Fund</u>
<u>Cash Flows from Operating Activities:</u>			
Cash received from customers	\$ 115,324	\$ 213,730	\$ 396,351
Cash payments to suppliers	(123,911)	(122,122)	(106,537)
Cash payments to employees	(43,420)	--	--
Net Cash Provided (Used) by Operating Activities	<u>(52,007)</u>	<u>91,608</u>	<u>289,814</u>
<u>Cash Flows from Noncapital Financing Activities:</u>			
Transfers in	--	--	--
Transfers out	--	(50,100)	(180,590)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>--</u>	<u>(50,100)</u>	<u>(180,590)</u>
<u>Cash Flows from Capital and Related Financing Activities:</u>			
Interest & fiscal charges paid on capital debt	(3,815)	--	--
Principal paid on capital debt	--	--	--
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(3,815)</u>	<u>--</u>	<u>--</u>
<u>Cash Flows from Investing Activities:</u>			
Interest earned	--	5,659	42,349
Net Cash Provided (Used) by Investing Activities	<u>--</u>	<u>5,659</u>	<u>42,349</u>
Net Increase (Decrease) in Cash	(55,822)	47,167	151,573
Cash, January 1	<u>(227,247)</u>	<u>477,365</u>	<u>1,251,105</u>
Cash, December 31	<u>\$ (283,069)</u>	<u>\$ 524,532</u>	<u>\$ 1,402,678</u>

See Notes to Financial Statements.

Storm Water Fund	Wild River Apartment Fund	Total
\$ 38,488	\$ 603,844	\$ 1,367,737
(9,111)	(439,014)	(800,695)
--	--	(43,420)
<u>29,377</u>	<u>164,830</u>	<u>523,622</u>
--	148,225	148,225
(3,000)	--	(233,690)
<u>(3,000)</u>	<u>148,225</u>	<u>(85,465)</u>
--	(204,848)	(208,663)
--	<u>(150,000)</u>	<u>(150,000)</u>
<u>--</u>	<u>(354,848)</u>	<u>(358,663)</u>
627	--	48,635
<u>627</u>	<u>--</u>	<u>48,635</u>
27,004	(41,793)	128,129
<u>113,533</u>	<u>153,043</u>	<u>1,767,799</u>
<u>\$ 140,537</u>	<u>\$ 111,250</u>	<u>\$ 1,895,928</u>

CITY OF SANDSTONE, MINNESOTA
Proprietary Funds
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2011

	<u>Business-Type Activities - Enterprise Funds</u>		
	<u>Golf Fund</u>	<u>Water Utility Fund</u>	<u>Sewer Utility Fund</u>
<u>Reconciliation of Operating Income to Net Cash</u>			
<u>Provided (Used) by Operating Activities:</u>			
Operating income (loss)	\$ (68,373)	\$ 4,602	\$ 80,083
<u>Adjustments to Reconcile Operating Income (Loss) to</u>			
<u>Net Cash Provided (Used) by Operating Activities:</u>			
Depreciation	16,584	86,910	203,408
<u>Changes in Assets and Liabilities:</u>			
(Increase) decrease in accounts receivable	(92)	107	4,088
(Increase) decrease in inventory	1,598	--	--
(Increase) decrease in special assessments	--	(334)	--
(Increase) decrease in prepaid expenses	(1,224)	(14)	175
Increase (decrease) in accounts payable	(500)	3	--
Increase (decrease) in deferred revenue	--	334	2,060
Increase (decrease) in security deposits	--	--	--
Increase (decrease) in interest payable	--	--	--
Total Adjustments	<u>16,366</u>	<u>87,006</u>	<u>209,731</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (52,007)</u>	<u>\$ 91,608</u>	<u>\$ 289,814</u>

See Notes to Financial Statements.

Storm Water Fund	Wild River Apartment Fund	Total
\$ 10,021	\$ 170,841	\$ 197,174
20,187	108,987	436,076
(831)	12,401	15,673
--	--	1,598
1,837	--	1,503
--	134	(929)
--	(135,780)	(136,277)
(1,837)	--	557
--	11,890	11,890
--	(3,643)	(3,643)
<u>19,356</u>	<u>(6,011)</u>	<u>326,448</u>
<u>\$ 29,377</u>	<u>\$ 164,830</u>	<u>\$ 523,622</u>

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CITY OF SANDSTONE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2011

CITY OF SANDSTONE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS

December 31, 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the City of Sandstone, Minnesota have been prepared in conformity with generally accepted principles as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The accompanying summary of City of Sandstone, Minnesota's more significant accounting policies is presented to assist the reader in interpreting the basic financial statements and other data in this report. These policies, as presented should be viewed as an integral part of the accompanying basic financial statements.

A. Reporting Entity

The City of Sandstone (government) is a municipal corporation governed by an elected mayor and four council members. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the governments operations.

Blended Component Unit. The Economic Development Authority (EDA) serves all the citizens of the government and is governed by a board comprised of the government's elected council. The council approves and controls all financing of the Authority. City personnel handle all financial and fiscal matters. No separated audited financial statements are issued.

Economic Development Authority (EDA)

The purpose of EDA is to encourage, promote and finance economic development. The activities of the EDA are reported as part of the Special Revenue Funds. The entire City Council makes up the EDA board of Directors and assets are managed by city employees.

Wild River Apartments

The purpose of the Wild River Apartments is to provide rental housing facilities for low and moderate income senior tenants (Seniors) and multi-family rental housing for low and moderate income families (Family). The activities of the Wild River Apartments is recorded as part of the Enterprise Funds. Monitoring of the apartments is done by the EDA board and the City Administrator.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

CITY OF SANDSTONE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS

December 31, 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-wide and fund financial statements (continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, and are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year of which they are levied, except for taxes not collectable within 60 days. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current Period. All other revenue items are considered to be measurable and available only when cash is received by the government.

CITY OF SANDSTONE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS

December 31, 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement focus, basis of accounting, and financial statement presentation (continued)

The City reports the following major governmental funds:

The *general fund* is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. This fund records revenues such as property tax revenues and interest income. Most of the current day-to-day operations of the governmental units are financed through this fund.

The *capital project fund* accounts for the resources accumulated and payments made for various capital projects.

The City reports the following major proprietary funds:

The *golf fund* accounts for the operations of the City owned municipal golf course.

The *water utility fund* accounts for the operation of the City owned water utility system.

The *sewer utility fund* accounts for the operations of the City owned water reclamation

The *storm water fund* accounts for storm water revenues that are billed to property owners and related expenditures. The funds collected are for repair and replacement and new or expanded storm water system facility expenditures.

The *Wild River Apartments fund* accounts for the operation of the senior living apartments and family townhome units.

Governmental Funds

All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financial sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The modified accrual basis of accounting is used by all governmental fund types. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined, and used to pay liabilities of the current period. Expenditures, except for inventory items, are generally recorded when a liability is incurred; however, expenditures are recorded as prepaid for approved disbursements or as liabilities incurred in advance of the year in which the item is to be used. Principal and interest on general long-term debt are recorded as fund liabilities and expenditures when due.

CITY OF SANDSTONE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS

December 31, 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement focus, basis of accounting, and financial statement presentation (continued)

Governmental Funds (continued)

All major revenues are susceptible to accrual. Property tax revenues for all funds, which are payable by property owners on a calendar-year basis, are recognized as revenues in the fiscal years for which the taxes have been levied (see Note 1, J). State revenues are recognized in the year to which they apply, according to Minnesota Statutes. Federal revenues are recorded in the year in which the related expenditure is made. If the amounts of state or federal revenues cannot be reasonably estimated or realization is not assured, they are not recorded as revenues in the current year.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for principal and interest on general long-term debt, when is recognized when due. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Use of Estimates

The preparation of the City's basic 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 and the reported amounts of revenues and expenses/expenditures during the reporting period. The City's significant estimates include liabilities for self-insurance claims incurred but not reported and liabilities for employee severance and compensated absences. Actual results could differ from those estimates.

Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general fund. All annual appropriations lapse at fiscal year-end.

The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the department level.

All amendments were not material in relation to the original appropriations, which were amended. Total fund expenditures in excess of budget require approval by the City Council. Spending control is established by the amount of expenditures budgeted for the fund, but management control is exercised at line-item levels.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the City's proprietary funds consider all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

CITY OF SANDSTONE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS

December 31, 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Inventory

Inventory is valued at cost on the first in, first out method or market, whichever is lower.

E. Receivables

Special Assessments:

Special assessments receivable represent uncollected special assessments with a corresponding contra account recorded as deferred revenue in the liability section for those assessments not collected within sixty days of year-end.

Receivables:

Based on historical collection experience no allowance has been made for doubtful accounts. Accounts that are determined to be uncollectible are expensed during the period.

F. Capital Assets

Capital assets which include property, land, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives, are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed, net of interest earned on the invested debt proceeds over the same period.

Property, plant, and equipment are capitalized when acquired, and depreciation is provided using the straight-line method applied over the following estimated useful lives of the assets:

Assets	Useful Life In Years
Land	Not depreciated
Buildings	50
Infrastructure	30-50
Other improvements	20-30
Machinery and equipment	3-15

CITY OF SANDSTONE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Accrued Interest

Excess cash from all funds are pooled and invested to the extent available in certificates of deposit and other authorized investments. Earnings from such investments were allocated to appropriate funds on the basis of applicable cash balance participation by each fund. The statement of revenue of each fund reflects such earnings.

H. Prepaid Expenses

Prepaid expenses consists of various items that have been paid and have not consumed.

I. Total Columns on Combined Statements

It is emphasized that the "Memorandum Only" column on the combined statements is not comparable to a consolidation. It is presented for overview information purposes only. The financial condition and results of operations of each fund should be determined by reference to the individual fund financial statements.

J. Recognition of Property Tax Revenue

The City mails its property tax levy to the county auditor during the month of December, prior to the current fiscal year. The county is the collecting agent for the levy and remits collections to the City normally during the months of March, June and November. Taxes not collected as of December 31 are not recognized as receivable unless collected within 60 days after year end.

The amount of property taxes the City may levy for general purposes is subject to statutory limitation by the State of Minnesota. Special levies for Debt Service, unfunded accrued liabilities of certain pensions and certain other activities are not subject to levy limitations.

CITY OF SANDSTONE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
 December 31, 2011

NOTE 2: CASH AND INVESTMENTS

A. Deposits

In accordance with Minnesota Statutes, the City maintains deposits at those depository banks as authorized by the City Council.

Balances at December 31, 2011, are as follows:

	Bank Balance	Carrying Amount
Insured or collateralized by securities held by the City or its agent in the City's name	\$ 3,363,601	\$ 3,500,000
Collateralized by securities held by the pledging institutions trust department in the City's name	--	--
Uncollateralized or collateralized with securities not in the City's name	--	--
Totals	\$ 3,363,601	\$ 3,500,000

Net certificates of deposits are considered deposited.

Authorized collateral includes first mortgage notes, certain state or local government obligations and legal investments described below. Minnesota Statutes also require that securities pledged as collateral be held in safekeeping by the Treasurer, or in a financial institution other than the institution furnishing the collateral.

B. Investments

The City is authorized by Minnesota Statutes to invest idle funds as follows:

- a. Direct obligation or obligations guaranteed by the United States or its agencies.
- b. Shares of investment companies registered under the Federal Investment Company Act of 1940 and whose only investments are in securities described in (a) above.
- c. General obligations of the State of Minnesota or its municipalities.
- d. Bankers acceptance of United States banks eligible for purchase by the Federal Reserve System.
- e. Commercial paper issued by United States corporations or their Canadian subsidiaries, of the highest quality, and maturing in 270 days or less.
- f. Repurchase agreements with banks that are members of the Federal Reserve Systems with capitalization exceeding \$10,000,000, a reporting dealer into the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.

CITY OF SANDSTONE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS

December 31, 2011

NOTE 2: CASH AND INVESTMENTS (Continued)

B. Investments (Continued)

Investment balances as of December 31, 2011, are as follows:

	Fair Value
Lakes States Federal Credit Union - CDs	\$ 22,059
Woodlands National Bank - CDs	500,000
Citigroup Smith Barney	816,510
Total	\$ 1,338,569

A reconciliation of cash and investments as shown on the Statement of Net Assets:

Cash and cash equivalents	\$ 2,310,776
Cash with fiscal agent	246,866
Investments	1,088,569
Restricted cash	893,531
Restricted investments	593,429
Total	\$ 5,133,171

Cash and investments include balances from all funds that are combined and invested to the extent available in various securities as authorized by state law. State statutes authorize the government and City to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreements and the State Treasurer's Investment Pool. Earnings from the pooled investments are allocated to the individual funds based on the average of month-end cash and investment balances.

Short-term, highly liquid debt instruments (including commercial paper, banker's acceptances and U.S. Treasury and agency obligations) purchased with a remaining maturity of one year or less are reported at amortized cost. Other investments are reported at fair value.

Minnesota Statutes requires all deposits be protected by federal depository insurance, corporate surety bonds or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by federal deposit Insurance Corporation (FDIC) insurance or corporate surety bonds.

Cash and investments at December 31, 2011, were comprised of deposits, brokered certificates of deposit, and money markets.

Custodial Credit Risk - Deposits: Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City has a policy in place to address custodial credit risk for deposits, stating all deposits must be in compliance with *Minnesota Statutes* 118A.

Interest Rate Risk: The City's investment policy does not include specific limits on investment maturities as a means of managing its exposure to fair value arising from increasing interest rates. It does suggest avoiding a concentration of investments within a specific maturity sector or range.

Credit Risk: The City's investment policy refers to *Minnesota Statutes* 118A. The Statute limits investments in the top two ratings issued by nationally recognized statistical rating organizations.

CITY OF SANDSTONE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS

December 31, 2011

NOTE 2: CASH AND INVESTMENTS (Continued)

B. Investments (Continued)

Concentration of Credit Risk: The City's investment policy places no specific limit on the amount the City may invest in any one issuer. It does state the City should avoid over investing in specific investments or issuers.

Custodial Credit Risk - Investments: For an investment, this is the risk that in the event of the failure of a counterparty, the City will not be able to recover the value of its investments or securities that are in the possession of an outside party. The City's investment policy states all investments shall be held in third party safekeeping by an institution designated as custodial agent.

C. Restricted Cash and Assets

Restricted assets are deposits and prepaid expenses held for specifically required programs and are offset by fund balance reserve accounts. Balances at December 31, 2011, and descriptions are as follows:

	Restricted Cash	Prepaid Items
General fund	\$ 220,516	\$ 17,990
Special revenue funds	76,700	--
Capital projects	372,913	1,218
EDA fund	250,000	--
Enterprise funds	566,831	7,769
	\$ 1,486,960	\$ 26,977

NOTE 3: DUE FROM OTHER GOVERNMENTAL UNITS

There are no amounts due from other governmental units at December 31, 2011.

NOTE 4: LONG-TERM DEBT

The long-term debt of the City is described as follows:

General Obligation Bonds:

General obligation bonds are recorded in the general long-term debt and are backed by the full-faith, credit and taxing power of the City.

A summary of interest rates, maturities, and balances at December 31, 2011 are as follows:

CITY OF SANDSTONE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS

December 31, 2011

NOTE 4: LONG-TERM DEBT (Continued)

<u>General Obligation Bonds:</u>	Interest Rates	Maturity	Balance 12/31/11	Due Within One Year
G.O. Refunding 2009 Series A	2.00-4.20%	2024	\$ 570,000	\$ 50,000
G.O. Refunding 2009 Series B	3.25%	2020	365,000	75,000
PFA G.O. Water Revenue Note	2.11%	2019	188,000	22,000
G.O. Wastewater Refunding of 01	3.00-4.35%	2012	120,000	120,000
G.O. Imp. Bond of 2007A	4.35%	2018	235,000	30,000
G.O. C of I Series 2007B	4.10%	2013	33,000	16,000
\$340,000 Lease Purchase	4.309-5.41%	2026	334,000	17,000
Total General Obligation			\$ 1,845,000	\$ 330,000
 <u>Business-Type Activities:</u>				
EDA Refunding Bonds 2004	4.79%	2029	\$ 4,225,000	\$ 165,000
Total Business-Type Activities			\$ 4,225,000	\$ 165,000

The changes in the long-term debt of the City during 2011 are presented below:

<u>Governmental Activities</u>	Balance 1/1/11	New Issues	Debt Retired	Balance 12/31/11
G.O. Refunding 2009 Series A	610,000	--	40,000	570,000
G.O. Refunding 2009 Series B	430,000	--	65,000	365,000
PFA G.O. Water Revenue Note	209,000	--	21,000	188,000
G.O. Wastewater Refunding Bond of 2001	270,000	--	150,000	120,000
G.O. Imp. Bond of 2007A	265,000	--	30,000	235,000
G.O. C of I Series 2007B	48,000	--	15,000	33,000
\$340,000 Lease Purchase	340,000	--	6,000	334,000
Total G.O. Debt	\$ 2,172,000	\$ --	\$ 327,000	\$ 1,845,000
 <u>Business-Type Activities</u>				
EDA Refunding Bonds 2004	4,375,000	--	150,000	4,225,000
	\$ 4,375,000	\$ --	\$ 150,000	\$ 4,225,000

CITY OF SANDSTONE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2011

NOTE 4: LONG-TERM DEBT (Continued)

The annual requirement to amortize all long-term debt outstanding as of December 31, 2011 including interest payments for the next five years, are summarized below:

Year Ending December 31	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2012	330,000	60,958	165,000	201,333
2013	207,000	51,657	170,000	194,893
2014	196,000	45,150	175,000	187,753
2015	133,000	39,772	180,000	180,050
2016	134,000	35,170	190,000	171,382
2017-2021	579,000	104,550	1,105,000	708,953
2022-2026	266,000	21,960	1,400,000	408,239
2027-2029	--	--	840,000	64,125
Total	\$ 1,845,000	\$ 359,217	\$ 4,225,000	\$ 2,116,728

On December 1, 2010, the City entered into a Lease-Purchase Agreement with the First National Bank of the North for the Public Works Building Project. The building and land is being leased with intention of purchase at the end of the lease. The lease payments are included in Note 4, Long-Term Debt summary.

Long-Term Debt - Other

Pursuant to Minnesota Statutes Section 469.175, Subd. 6, the City is required to disclose information relating to its tax increment districts.

The City of Sandstone, Minnesota is the administrating authority for the following tax increment finance district:

Municipal Development District Number 1

Economic Development District 1-2 within Development District No. 1 was established under the authority of Minnesota Statute Sections 469.174 through 469.180. the duration of the District is estimated to be 10 years, but no longer than 15 years from the first collection.

The tax increment district Sandstone TIF 1-2 Shavor Townhomes was decertified December 31, 2011.

CITY OF SANDSTONE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS

December 31, 2011

NOTE 4: LONG-TERM DEBT (Continued)

	<u>2011</u>	<u>2010</u>
Certification date	7/28/1993	7/28/1993
Year first increment received	1996	1996
Date of required decertification	12/11/2011	12/11/2011
Tax increment revenue	\$ 5,934	\$ 5,793
Current net tax capacity	4,151	4,279
Original net tax Capacity	210	210
Captured net tax capacity	3,941	4,069
Shared with other taxing jurisdictions	--	--
Captured tax capacity retained by authority	3,941	4,069
Total Bonds Issued		
Total Loans Incurred	--	--
Amounts Redeemed	--	--
Outstanding Bonds and Loans at 12/31/11	--	--

NOTE 5: DEFERRED BENEFIT PENSION PLAN

A. Plan Description

All full-time and certain part-time employees of the City 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. The plan is 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 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 average salary for any five successive years of allowable service, age, and years of credit at termination of service.

CITY OF SANDSTONE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS

December 31, 2011

NOTE 5: DEFERRED BENEFIT PENSION PLAN (Continued)

A. Plan Description (Continued)

Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 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 PERF 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 provision 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 terminate their public service.

PERA issues a publicly available financial report that included financial statements and required supplementary information for PERF. The report may be accessed at the PERA web site, www.mn.pera.org. Alternatively, a copy of the report may be obtained by writing or calling PERA:

PERA
514 St. Peter Street #200
St. Paul, Minnesota 55102
651-296-7460
800-652-9026

CITY OF SANDSTONE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS

December 31, 2011

NOTE 5: PENSION PLAN (Continued)

B. Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The City makes annual contributions to the pension plans equal to the amount required by state statutes. PERF Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.25%, respectively, of their annual covered salary in 2011. The City is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan PERF members and 7.25% for Coordinated Plan PERF members. The City's contributions to the Public Employees Retirement Fund for the years ending December 31, 2011, 2010, and 2009, were \$20,402, \$19,606, and \$18,013, respectively. The City's contributions were equal to contractually required contributions for each year as set by state statute.

NOTE 6: SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The City maintains five enterprise funds which provide golf, water, sewer, storm water, and senior apartments. Segment information for the year ended December 31, 2011, is as follows:

	<u>Golf</u>	<u>Water</u>	<u>Sewer</u>	<u>Storm</u>	<u>Wild River</u>
Operating revenues	<u>\$ 115,042</u>	<u>\$ 213,971</u>	<u>\$ 392,088</u>	<u>\$ 37,482</u>	<u>\$ 591,309</u>
Expenses:					
Depreciation	\$ 16,584	\$ 86,910	\$ 203,408	\$ 20,187	\$ 108,987
Other	<u>166,831</u>	<u>122,459</u>	<u>108,597</u>	<u>7,274</u>	<u>311,481</u>
Total expenses	<u>\$ 183,415</u>	<u>\$ 209,369</u>	<u>\$ 312,005</u>	<u>\$ 27,461</u>	<u>\$ 420,468</u>
Nonoperating revenues (expenses)	<u>\$ (3,815)</u>	<u>\$ 5,659</u>	<u>\$ 42,394</u>	<u>\$ 627</u>	<u>\$ (204,848)</u>
Net income (loss)	<u>\$ (72,188)</u>	<u>\$ 10,261</u>	<u>\$ 122,477</u>	<u>\$ 10,648</u>	<u>\$ (34,007)</u>
Total assets	<u>\$ 116,476</u>	<u>\$ 2,575,852</u>	<u>\$ 7,505,767</u>	<u>\$ 557,905</u>	<u>\$ 3,012,367</u>
Fund equity	<u>\$ (233,048)</u>	<u>\$ 2,572,759</u>	<u>\$ 7,398,603</u>	<u>\$ 557,905</u>	<u>\$(1,355,885)</u>
Capital expenditures - net	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>

CITY OF SANDSTONE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS

December 31, 2011

NOTE 7: DEFICIT FUND BALANCES

There were four funds with a deficit fund balance at the individual fund level at December 31, 2011.

EDA Wild River Reserve	\$ 42,470
Capital Project - Tax Increment Financing	27,624
Enterprise - Golf	233,048
Enterprise - Wild River Apartments	1,355,885

NOTE 8: APPROPRIATIONS/EXPENDITURES OVER REVENUES

Expenditures exceeded revenues in certain individual funds For the Year Ended December 31, 2011, as follows:

	<u>Expenditures</u>	<u>Revenues</u>	<u>Difference</u>
Capital - Tax Abatement	\$ 4,748	\$ 4,703	\$ 45
EDA Wild River Reserve	149,750	141,167	8,583
EDA Wild River Repair & Replacement	26,445	14,807	11,638
EDA CED Loan Fund	20,792	5,877	14,915
Debt Service - \$1,500M Wastewater Revenue	160,279	160,024	255
Debt Service - MN Street Improvement	41,188	39,977	1,211
Capital - Tax Increment Financing	6,255	5,934	321
Capital Projects Fund	497,616	238,243	259,373

NOTE 9: RISK MANAGEMENT

Significant losses are covered by commercial insurance for all major programs. These programs are life, health, property and liability, worker's compensation unemployment and disability. Significant losses are covered by commercial insurance. For insured programs there have been no significant reductions in insurance coverage. Settlement amounts, if any, have not exceeded insurance coverage for the current year or the three prior years.

NOTE 10: EXCESS EXPENDITURES OVER BUDGET

Actual expenditures exceeded budgeted amounts at the individual fund level as follows:

	<u>Expenditures</u>	<u>Budget</u>	<u>Variance</u>
General Fund	\$ 1,180,513	\$ 1,161,326	\$ 19,187
EDA CED Loan Fund	20,792	15,600	5,192
Capital Projects	497,616	445,500	52,116
Capital Projects - Tax Increment Financing	6,255	5,525	730

CITY OF SANDSTONE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS

December 31, 2011

NOTE 11: INTERFUND RECEIVABLES AND PAYABLES

The amounts due to and due from other funds at December 31, 2011, at the individual fund level are summarized below:

Funds	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
Capital Projects:		
Tax Increment Financing	--	30,743
Capital Projects	30,743	266,766
Enterprise Fund:		
Sewer	516,766	
Golf	--	56,741
Special Revenue:		
EDA CED Loan	137,241	--
EDA	--	330,500
	<u> </u>	<u> </u>
Totals	<u>\$ 684,750</u>	<u>\$ 684,750</u>

NOTE 12: CONTINGENCIES AND COMMITMENTS

In connection with the normal conduct of its affairs, the City is involved in various claims and litigation's. It is the opinion of the City attorney that the final settlement of these matters will not materially affect the financial statements of the City.

CITY OF SANDSTONE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS

December 31, 2011

NOTE 13: CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2011, are as follows:

<u>Governmental Activities</u>	Beginning Balances	Increase	Decrease	Ending Balances
Capital Assets:				
Land	\$ 624,403	\$ --	\$ --	\$ 624,403
Infrastructure	7,120,750	209,565	--	7,330,315
Buildings and improvements	1,775,346	49,828	--	1,825,174
Equipment	715,535	59,786	--	775,321
Total Capital Assets	<u>10,236,034</u>	<u>319,179</u>	<u>--</u>	<u>10,555,213</u>
Less: Accumulated Depreciation for:				
Infrastructure	4,130,825	187,631	--	4,318,456
Buildings and improvements	926,025	47,712	--	973,737
Equipment	511,807	58,830	--	570,637
Total Accumulated Depreciation	<u>5,568,657</u>	<u>294,173</u>	<u>--</u>	<u>5,862,830</u>
Total Capital Assets, Net of Depreciation	<u>\$ 4,667,377</u>	<u>\$ 25,006</u>	<u>\$ --</u>	<u>\$ 4,692,383</u>
<u>Business - Type Activities</u>				
Capital Assets:				
Land	\$ 164,539	\$ --	\$ --	\$ 164,539
Buildings and improvements	20,037,698	42,757	--	20,080,455
Equipment	135,390	--	--	135,390
Total Capital Assets	<u>20,337,627</u>	<u>42,757</u>	<u>--</u>	<u>20,380,384</u>
Less: Accumulated Depreciation for:				
Buildings and improvements	8,777,134	524,122	--	9,301,256
Equipment	406,284	20,998	--	427,282
Total Accumulated Depreciation	<u>9,183,418</u>	<u>545,120</u>	<u>--</u>	<u>9,728,538</u>
Business - Type Capital Assets, Net	<u>\$ 11,154,209</u>	<u>\$ (502,363)</u>	<u>\$ --</u>	<u>\$ 10,651,846</u>

CITY OF SANDSTONE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
 December 31, 2011

NOTE 13: CAPITAL ASSETS (Continued)

Depreciation expense was charged to function/programs as follows:

Governmental Activities		
General government	\$	202,867
Public safety		37,758
Public works		36,706
Culture and recreation		7,754
Unallocated		9,088
Total Depreciation Expense - Governmental Activities	\$	294,173
Business - Type Activities		
Golf	\$	16,584
Water utility		86,910
Sewer utility		203,408
Storm Water		20,186
Wild River Apartments		218,032
Total Depreciation Expense - Business - Type Activities	\$	545,120

NOTE 14: GASB 54 FUND BALANCE REPORTING

The City has adopted the Governmental Accounting Standards Board (GASB) statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54). This Statement defines the different types of fund balances that a governmental entity must use for financial reporting purposes.

1. *Nonspendable* , such as fund balance associated with inventories, prepaids, long-term loans and notes receivable, and property held for resale (unless the proceeds are restricted, committed, or assigned).

2. *Restricted* fund balance category includes amounts that can be spent only for specific purposes stipulated by constitution, external resource providers, or through enabling legislation.

3. *Committed* fund balance classification includes amounts that can be used only for specific purposes determined by a formal action of the City Council (the City's highest level of decision making authority).

4. *Assigned* fund balance classification is intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed.

5. *Unassigned* fund balance is the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications.

The Fund Balance policy of the City includes classifying its fund balances in its various funds in one or more of the five classifications: nonspendable, restricted, committed, assigned, and unassigned.

If resources from more than one fund balance classification could be spent, the City will strive to spend resources from fund balance classifications in the following order (first to last): Restricted, Committed, Assigned, and Unassigned.

CITY OF SANDSTONE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2011

NOTE 14: GASB 54 FUND BALANCE REPORTING (continued)

A majority vote of the City council is required prior to December 31 each year, to commit a fund balance to a specific purpose and subsequently to remove or change any constraint so adopted by the City Council.

The City Council, by majority vote, may assign fund balances to be used for specific purposes when appropriate. The Council also delegates the power to assign fund balances to the following: City Administrator.

Fund Balances - Pre-GASB 54 - Governmental Funds

Fund	Reserved for Special Revenue	Reserved for Capital Projects	Reserved for Debt Service	Restricted & Prepaid	Unreserved	Governmental Total
General	\$ --	\$ 541,626	\$ --	\$ 69,262	\$ 872,681	\$ 1,483,569
Capital Project	--	40,017	--	374,131	(368,951)	45,197
EDA	(220,348)	--	--	250,000	--	29,652
EDA CED Loan	382,986	--	--	--	--	382,986
Cemetery Permanent Care	106,426	--	--	--	--	106,426
EDA Wild River Capital Exp	96,717	--	--	--	--	96,717
EDA Wild River Reserve	(42,470)	--	--	--	--	(42,470)
Tax Abatement	--	155	--	--	--	155
Tax Increment Financing	--	(27,946)	--	--	--	(27,946)
\$655,000 GO Refunding Bond	--	--	69,050	--	--	69,050
\$430,000 GO Improvement Bond	--	--	95,504	--	--	95,504
\$1,500,000 Wastewater Revenue	--	--	7,759	--	--	7,759
2007B Equipment C of I	--	--	3,441	--	--	3,441
\$315,000 GO MN St Imp	--	--	69,524	--	--	69,524
\$340,000 Lease Puch Public Works	--	--	29	--	--	29
1999 PFA Water GO	--	--	2,652	--	--	2,652
Totals	<u>\$ 323,311</u>	<u>\$ 553,852</u>	<u>\$ 247,959</u>	<u>\$ 693,393</u>	<u>\$ 503,730</u>	<u>\$ 2,322,245</u>

Fund Balances - Restated GASB 54 - Categories

Fund	Nonspendable	Restricted	Committed	Assigned	Unassigned	Governmental Total
General	\$ 17,990	\$ 62,382	\$ --	\$ 830,916	\$ 572,281	\$ 1,483,569
Capital Project	--	45,197	--	--	--	45,197
EDA	--	--	--	29,652	--	29,652
EDA CED Loan	--	--	--	382,986	--	382,986
Cemetery Permanent Care	--	--	--	106,426	--	106,426
EDA Wild River Capital Exp	--	--	--	96,717	--	96,717
EDA Wild River Reserve	--	--	--	(42,470)	--	(42,470)
Tax Abatement	--	155	--	--	--	155
Tax Increment Financing	--	(27,946)	--	--	--	(27,946)
\$655,000 GO Refunding Bond	--	69,050	--	--	--	69,050
\$430,000 GO Improvement Bond	--	95,504	--	--	--	95,504
\$1,500,000 Wastewater Revenue	--	7,759	--	--	--	7,759
2007B Equipment C of I	--	3,441	--	--	--	3,441
\$315,000 GO MN St Imp	--	69,524	--	--	--	69,524
\$340,000 Lease Puch Public Works	--	29	--	--	--	29
1999 PFA Water GO	--	2,652	--	--	--	2,652
Totals	<u>\$ 17,990</u>	<u>\$ 327,747</u>	<u>\$ --</u>	<u>\$ 1,404,227</u>	<u>\$ 572,281</u>	<u>\$ 2,322,245</u>

CITY OF SANDSTONE, MINNESOTA
COMBINING AND INDIVIDUAL FUND
STATEMENTS AND SCHEDULES
December 31, 2011

CITY OF SANDSTONE, MINNESOTA
 Nonmajor Governmental Funds
COMBINING BALANCE SHEET
 December 31, 2011

	Special Revenue Funds			
	General Reserve	EDA CED Loan	Cemetery Permanent Care	EDA Wild River Capital Expense
ASSETS				
Cash & cash equivalents	\$ --	\$ 123,552	\$ 84,366	\$ 95,517
Investments	--	--	22,059	--
Accounts receivable	--	45,492	--	1,200
Delinquent property tax	--	--	--	--
Special assessment	--	--	--	--
Special assessment deferred	--	--	--	--
Due from other funds	--	137,241	--	--
Bond Discount	--	--	--	--
Restricted cash	--	76,700	--	--
Total assets	\$ --	\$ 382,985	\$ 106,425	\$ 96,717
 LIABILITIES AND FUND BALANCE				
<u>Liabilities:</u>				
Cash in bank (overdraft)	\$ --	\$ --	\$ --	\$ --
Accounts payable	--	--	--	--
Due to other funds	--	--	--	--
Deferred revenue	--	--	--	--
Total liabilities	--	--	--	--
 <u>Fund Balance:</u>				
Reserved	--	382,985	106,425	96,717
Total fund balance	--	382,985	106,425	96,717
 Total liabilities and fund balance	\$ --	\$ 382,985	\$ 106,425	\$ 96,717

Special Revenue Funds			
EDA Wild River Reserve	Special Revenue Total	\$655,000 G.O. Refunding Bond, 2009A	\$430,000 G.O. Improvement Bond, 2009B
\$ --	\$ 303,435	\$ 66,885	\$ 95,504
--	22,059	--	--
--	46,692	--	--
13,609	13,609	5,199	4,391
--	--	114	3,241
--	--	114	45,310
--	137,241	--	--
--	--	2,166	--
--	76,700	--	--
<u>\$ 13,609</u>	<u>\$ 599,736</u>	<u>\$ 74,478</u>	<u>\$ 148,446</u>
\$ 42,470	\$ 42,470	\$ --	\$ --
--	--	--	--
--	--	--	--
13,609	13,609	5,427	52,942
<u>56,079</u>	<u>56,079</u>	<u>5,427</u>	<u>52,942</u>
(42,470)	543,657	69,051	95,504
<u>(42,470)</u>	<u>543,657</u>	<u>69,051</u>	<u>95,504</u>
<u>\$ 13,609</u>	<u>\$ 599,736</u>	<u>\$ 74,478</u>	<u>\$ 148,446</u>

CITY OF SANDSTONE, MINNESOTA
 Nonmajor Governmental Funds
COMBINING BALANCE SHEET
 December 31, 2011

Debt Service Funds

	\$1,500,000 Wastewater Revenue	2007B Equip C of I	\$315,000 2007A G.O. MN St. Improvement	\$340,000 Lease Purchase Public Works
ASSETS				
Cash & cash equivalents	\$ 3,439	\$ 3,441	\$ 67,649	\$ 29
Investments	--	--	--	--
Accounts receivable	--	--	--	--
Delinquent property tax	--	1,624	2,295	--
Special assessment	--	--	--	--
Special assessment deferred	--	--	66,900	--
Due from other funds	--	--	--	--
Bond discount	4,320	--	1,875	--
Restricted cash	--	--	--	--
Total Assets	\$ 7,759	\$ 5,065	\$ 138,719	\$ 29
LIABILITIES AND FUND BALANCE				
<u>Liabilities:</u>				
Cash in bank overdraft	\$ --	\$ --	\$ --	\$ --
Accounts Payable	--	--	--	--
Due to other funds	--	--	--	--
Deferred revenue	--	1,624	69,195	--
Total Liabilities	--	1,624	69,195	--
<u>Fund Balance:</u>				
Reserved	7,759	3,441	69,524	29
Total Fund Balance	7,759	3,441	69,524	29
Total Liabilities and Fund Balance	\$ 7,759	\$ 5,065	\$ 138,719	\$ 29

Capital Projects Fund					
1999 PFA Water G.O.	Debt Service Total	Tax Abatement	Tax Increment Financing	Capital Projects Total	Total Nonmajor Governmental Funds
\$ 2,652	\$ 239,599	\$ 951	\$ 2,798	\$ 3,749	\$ 546,783
--	--	--	--	--	22,059
--	--	284	--	284	46,976
--	13,509	--	--	--	27,118
--	3,355	--	--	--	3,355
--	112,324	--	--	--	112,324
--	--	--	--	--	137,241
--	8,361	--	--	--	8,361
--	--	--	--	--	76,700
<u>\$ 2,652</u>	<u>\$ 377,148</u>	<u>\$ 1,235</u>	<u>\$ 2,798</u>	<u>\$ 4,033</u>	<u>\$ 980,917</u>
\$ --	\$ --	\$ --	\$ --	\$ --	\$ 42,470
--	--	796	--	796	796
--	--	--	30,743	30,743	30,743
--	129,188	284	--	284	143,081
<u>--</u>	<u>129,188</u>	<u>1,080</u>	<u>30,743</u>	<u>31,823</u>	<u>217,090</u>
2,652	247,960	155	(27,945)	(27,790)	763,827
<u>2,652</u>	<u>247,960</u>	<u>155</u>	<u>(27,945)</u>	<u>(27,790)</u>	<u>763,827</u>
<u>\$ 2,652</u>	<u>\$ 377,148</u>	<u>\$ 1,235</u>	<u>\$ 2,798</u>	<u>\$ 4,033</u>	<u>\$ 980,917</u>

CITY OF SANDSTONE, MINNESOTA
Nonmajor Governmental Funds
Combined Statement of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended December 31, 2011

	Special Revenue Funds			
	General Reserve	EDA CED Loan	Cemetery Permanent Care	EDA Wild River Capital Expense
REVENUES				
Property tax	\$ --	\$ --	\$ --	\$ --
Tax increment	--	--	--	--
Interest	--	5,877	842	406
Special assessments	--	--	--	--
Miscellaneous	--	--	5,850	14,400
Total Revenues	<u>--</u>	<u>5,877</u>	<u>6,692</u>	<u>14,806</u>
EXPENDITURES				
Contractual services	--	5,192	--	--
Bond principal	--	--	--	--
Interest	--	--	--	--
Capital outlay	--	--	--	--
Miscellaneous	--	--	--	26,445
Total Expenditures	<u>--</u>	<u>5,192</u>	<u>--</u>	<u>26,445</u>
Excess (deficiency) of revenue over (under) expenditures	<u>--</u>	<u>685</u>	<u>6,692</u>	<u>(11,639)</u>
OTHER FINANCING SOURCES (USES)				
Bond proceeds	--	--	--	--
Transfer in	--	--	--	--
Transfer out	(237,195)	(15,600)	--	--
Total Other Financing Source (uses)	<u>(237,195)</u>	<u>(15,600)</u>	<u>--</u>	<u>--</u>
Net change in fund balances	(237,195)	(14,915)	6,692	(11,639)
Fund Balances - beginning	237,195	397,901	99,733	108,356
Fund Balances - ending	<u>\$ --</u>	<u>\$ 382,986</u>	<u>\$ 106,425</u>	<u>\$ 96,717</u>

Special Revenue Funds			
EDA Wild River Reserve	Special Revenue Total	\$655,000 G.O. Refunding Bond, 2009A	\$430,000 G.O. Improvement Bond, 2009B
\$ 141,167	\$ 141,167	\$ 54,222	\$ 45,947
--	--	--	--
--	7,125	123	207
--	--	--	25,461
--	20,250	--	--
<u>141,167</u>	<u>168,542</u>	<u>54,345</u>	<u>71,615</u>
--	5,192	--	--
--	--	40,000	65,000
--	--	20,018	12,919
--	--	--	--
1,525	27,970	918	--
<u>1,525</u>	<u>33,162</u>	<u>60,936</u>	<u>77,919</u>
<u>139,642</u>	<u>135,380</u>	<u>(6,591)</u>	<u>(6,304)</u>
--	--	--	--
--	--	12,000	25,000
(148,225)	(401,020)	--	--
<u>(148,225)</u>	<u>(401,020)</u>	<u>12,000</u>	<u>25,000</u>
(8,583)	(265,640)	5,409	18,696
<u>(33,887)</u>	<u>809,298</u>	<u>63,642</u>	<u>76,808</u>
<u>\$ (42,470)</u>	<u>\$ 543,658</u>	<u>\$ 69,051</u>	<u>\$ 95,504</u>

CITY OF SANDSTONE, MINNESOTA
 Nonmajor Governmental Funds
Combined Statement of Revenues, Expenditures and Changes in Fund Balance
 For the Year Ended December 31, 2011

	Debt Service Funds			
	\$1,500,000 Wastewater Revenue Fund	2007B Equip C of I	\$315,000 2007A G.O. MN St. Improvement	\$340,000 Lease Purchase Public Works
REVENUES				
Property taxes	\$ --	\$ 16,846	\$ 23,494	\$ --
Tax increment	--	--	--	--
Interest	24	2	220	--
Special assessments	--	--	16,263	--
Miscellaneous	--	--	--	--
Total Revenues	<u>24</u>	<u>16,848</u>	<u>39,977</u>	<u>--</u>
EXPENDITURES				
Contractual services	--	--	--	--
Bond principal	150,000	15,000	30,000	6,000
Interest	8,408	1,661	10,875	9,071
Capital outlay	--	--	--	--
Miscellaneous	1,871	--	313	--
Total Expenditures	<u>160,279</u>	<u>16,661</u>	<u>41,188</u>	<u>15,071</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(160,255)</u>	<u>187</u>	<u>(1,211)</u>	<u>(15,071)</u>
OTHER FINANCING SOURCES (USES)				
Bond proceeds	--	--	--	--
Transfer in	160,000	--	--	15,100
Transfer out	--	--	--	--
Total Other Financing Sources (uses)	<u>160,000</u>	<u>--</u>	<u>--</u>	<u>15,100</u>
Net change in fund balances	(255)	187	(1,211)	29
Fund balance - beginning	<u>8,014</u>	<u>3,254</u>	<u>70,735</u>	<u>--</u>
Fund balances - ending	<u>\$ 7,759</u>	<u>\$ 3,441</u>	<u>\$ 69,524</u>	<u>\$ 29</u>

Capital Projects					
1999 PFA Water G.O.	Debt Service Total	Tax Abatement	Tax Increment Financing	Capital Projects Total	Total Nonmajor Governmental Funds
\$ --	\$ 140,509	\$ 2,933	\$ --	\$ 2,933	\$ 284,609
--	--	--	5,934	5,934	5,934
7	583	--	--	--	7,708
--	41,724	--	--	--	41,724
--	--	1,770	--	1,770	22,020
<u>7</u>	<u>182,816</u>	<u>4,703</u>	<u>5,934</u>	<u>10,637</u>	<u>361,995</u>
--	--	4,088	--	4,088	9,280
21,000	327,000	--	--	--	327,000
4,410	67,362	--	--	--	67,362
--	--	--	6,255	6,255	6,255
--	3,102	659	--	659	31,731
<u>25,410</u>	<u>397,464</u>	<u>4,747</u>	<u>6,255</u>	<u>11,002</u>	<u>441,628</u>
<u>(25,403)</u>	<u>(214,648)</u>	<u>(44)</u>	<u>(321)</u>	<u>(365)</u>	<u>(79,633)</u>
--	--	--	--	--	--
26,000	238,100	--	--	--	238,100
--	--	--	--	--	(401,020)
<u>26,000</u>	<u>238,100</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>(162,920)</u>
597	23,452	(44)	(321)	(365)	(242,553)
<u>2,055</u>	<u>224,508</u>	<u>199</u>	<u>(27,624)</u>	<u>(27,425)</u>	<u>1,006,381</u>
<u>\$ 2,652</u>	<u>247,960</u>	<u>\$ 155</u>	<u>\$ (27,945)</u>	<u>\$ (27,790)</u>	<u>\$ 763,828</u>

EDA Special Revenue Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual

For the Year Ended December 31, 2011

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Property taxes	\$ 7,693	\$ 10,009	\$ 2,316
Interest earned	--	411	411
Miscellaneous	1,000	100	(900)
Total Revenues	<u>8,693</u>	<u>10,520</u>	<u>1,827</u>
EXPENDITURES			
Contractual services	2,500	440	(2,060)
Miscellaneous	2,000	3,066	1,066
Property acquisition	15,600	15,504	(96)
Total Expenditures	<u>20,100</u>	<u>19,010</u>	<u>(1,090)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(11,407)</u>	<u>(8,490)</u>	<u>2,917</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	15,600	15,600	--
Total other financing sources (uses)	<u>15,600</u>	<u>15,600</u>	<u>--</u>
Net change in fund balances	4,193	7,110	2,917
Fund Balance - beginning	<u>22,542</u>	<u>22,542</u>	<u>--</u>
Fund Balance - ending	<u>\$ 26,735</u>	<u>\$ 29,652</u>	<u>\$ 2,917</u>

Capital Projects Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual

For the Year Ended December 31, 2011

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Property taxes	\$ --	\$ 4,990	\$ 4,990
Interest	1,700	6,026	4,326
Miscellaneous	--	8,953	8,953
Total Revenues	<u>1,700</u>	<u>19,969</u>	<u>18,269</u>
EXPENDITURES			
Capital expenditures	445,500	497,616	52,116
Total Expenditures	<u>445,500</u>	<u>497,616</u>	<u>52,116</u>
Excess (deficiency) of revenues (over (under) expenditures)	<u>(443,800)</u>	<u>(477,647)</u>	<u>(33,847)</u>
OTHER FINANCING RESOURCES (USES)			
Transfer in	170,170	218,274	48,104
Total other financing sources (uses)	<u>170,170</u>	<u>218,274</u>	<u>48,104</u>
Net change in fund balances	(273,630)	(259,373)	14,257
Fund balances - beginning	<u>304,570</u>	<u>304,570</u>	<u>--</u>
Fund balances - ending	<u>\$ 30,940</u>	<u>\$ 45,197</u>	<u>\$ 14,257</u>

General Reserve Special Revenue Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual

For the Year Ended December 31, 2011

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Special assessments	\$ 7,000	\$ --	\$ (7,000)
Interest earned	4,000	--	(4,000)
Total Revenues	<u>11,000</u>	<u>--</u>	<u>(11,000)</u>
EXPENDITURES			
Miscellaneous	17,500	--	(17,500)
Total Expenditures	<u>17,500</u>	<u>--</u>	<u>(17,500)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(6,500)</u>	<u>--</u>	<u>6,500</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	17,500	--	(17,500)
Transfers (out)	--	(237,195)	(237,195)
Total other financing sources (uses)	<u>17,500</u>	<u>(237,195)</u>	<u>(254,695)</u>
Net change in fund balances	11,000	(237,195)	(248,195)
Fund Balance - beginning	<u>237,195</u>	<u>237,195</u>	<u>--</u>
Fund Balance - ending	<u>\$ 248,195</u>	<u>\$ --</u>	<u>\$ (248,195)</u>

EDA CED Loan Special Revenue Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual

For the Year Ended December 31, 2011

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Interest earned	\$ 4,200	\$ 5,877	\$ 1,677
Total Revenues	<u>4,200</u>	<u>5,877</u>	<u>1,677</u>
EXPENDITURES			
Contract Services	--	5,193	5,193
Total Expenditures	<u>--</u>	<u>5,193</u>	<u>5,193</u>
Excess (deficiency) of revenues over (under) expenditures	<u>4,200</u>	<u>684</u>	<u>(3,516)</u>
OTHER FINANCING SOURCES (USES)			
Transfer (out)	(15,600)	(15,600)	--
Total other financing sources (uses)	<u>(15,600)</u>	<u>(15,600)</u>	<u>--</u>
Net change in fund balances	(11,400)	(14,916)	(3,516)
Fund Balance - beginning	<u>397,901</u>	<u>397,901</u>	<u>--</u>
Fund Balance - ending	<u>\$ 386,501</u>	<u>\$ 382,985</u>	<u>\$ (3,516)</u>

CITY OF SANDSTONE, MINNESOTA
 Cemetery Permanent Care Special Revenue Fund

Schedule 7

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
 For the Year Ended December 31, 2011

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Interest earned	\$ 1,500	\$ 842	\$ (658)
Miscellaneous	2,500	5,850	3,350
Total Revenues	<u>4,000</u>	<u>6,692</u>	<u>2,692</u>
EXPENDITURES			
Expenditures	<u>--</u>	<u>--</u>	<u>--</u>
Total Expenditures	<u>--</u>	<u>--</u>	<u>--</u>
Excess (deficiency) of revenues over (under) expenditures	4,000	6,692	2,692
Fund Balance - beginning	<u>99,733</u>	<u>99,733</u>	<u>--</u>
Fund Balance - ending	<u>\$ 103,733</u>	<u>\$ 106,425</u>	<u>\$ 2,692</u>

EDA Wild River Capital Expenditure Special Revenue Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual

For the Year Ended December 31, 2011

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Interest earned	\$ 1,700	\$ 406	\$ (1,294)
Miscellaneous	12,400	14,400	2,000
Total Revenues	<u>14,100</u>	<u>14,806</u>	<u>706</u>
EXPENDITURES			
Miscellaneous	<u>30,000</u>	<u>26,445</u>	<u>(3,555)</u>
Total Expenditures	<u>30,000</u>	<u>26,445</u>	<u>(3,555)</u>
Excess (deficiency) of revenues over (under) expenditures	(15,900)	(11,639)	4,261
Fund Balance - beginning	<u>108,356</u>	<u>108,356</u>	<u>--</u>
Fund Balance - ending	<u>\$ 92,456</u>	<u>\$ 96,717</u>	<u>\$ 4,261</u>

EDA Wild River Reserve Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual

For the Year Ended December 31, 2011

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Property tax	\$ 140,000	\$ 141,167	\$ 1,167
Interest earned	--	--	--
Total Revenues	<u>140,000</u>	<u>141,167</u>	<u>1,167</u>
EXPENDITURES			
Expenditures	--	1,525	1,525
Total Expenditures	<u>--</u>	<u>1,525</u>	<u>1,525</u>
Excess (deficiency) of revenues over (under) expenditures	<u>140,000</u>	<u>139,642</u>	<u>(358)</u>
OTHER FINANCING SOURCES (USES)			
Transfers (out)	<u>(150,000)</u>	<u>(148,225)</u>	<u>1,775</u>
Total other financing sources (uses)	<u>(150,000)</u>	<u>(148,225)</u>	<u>1,775</u>
Net change in fund balances	(10,000)	(8,583)	1,417
Fund Balance - beginning	<u>(33,887)</u>	<u>(33,887)</u>	<u>--</u>
Fund Balance - ending	<u>\$ (43,887)</u>	<u>\$ (42,470)</u>	<u>\$ 1,417</u>

\$655,000 General Obligation Refunding Bonds, Series 2009A

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual

For the Year Ended December 31, 2011

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Property taxes	\$ 57,300	\$ 54,222	\$ (3,078)
Interest		123	123
Total Revenues	<u>57,300</u>	<u>54,345</u>	<u>(2,955)</u>
EXPENDITURES			
Bond principal	40,000	40,000	--
Interest	20,100	20,018	(82)
Fiscal agent fees	900	918	18
Total Expenditures	<u>61,000</u>	<u>60,936</u>	<u>(64)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(3,700)</u>	<u>(6,591)</u>	<u>(2,891)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	12,000	12,000	--
Total other financing sources (uses)	<u>12,000</u>	<u>12,000</u>	<u>--</u>
Net change in fund balances	8,300	5,409	(2,891)
Fund Balance - beginning	<u>63,642</u>	<u>63,642</u>	<u>--</u>
Fund Balance - ending	<u>\$ 71,942</u>	<u>\$ 69,051</u>	<u>\$ (2,891)</u>

\$430,000 General Obligation Improvement Bonds, Series 2009B

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual

For the Year Ended December 31, 2011

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Property tax	\$ 48,400	\$ 45,947	\$ (2,453)
Special Assessments	12,500	25,461	12,961
Interest	--	207	207
Total Revenues	<u>60,900</u>	<u>71,615</u>	<u>10,715</u>
EXPENDITURES			
Bond principle	65,000	65,000	--
Interest	12,950	12,919	(31)
Fiscal agent fees	500	--	(500)
Total Expenditures	<u>78,450</u>	<u>77,919</u>	<u>(531)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(17,550)</u>	<u>(6,304)</u>	<u>11,246</u>
OTHER FINANCING SOURCES (USES)			
Transfer in	<u>25,000</u>	<u>25,000</u>	<u>--</u>
Total other financing sources (uses)	<u>25,000</u>	<u>25,000</u>	<u>--</u>
Net change in fund balances	7,450	18,696	11,246
Fund Balance - beginning	<u>76,808</u>	<u>76,808</u>	<u>--</u>
Fund Balance - ending	<u>\$ 84,258</u>	<u>\$ 95,504</u>	<u>\$ 11,246</u>

CITY OF SANDSTONE, MINNESOTA
 \$1.5MM Wastewater Revenue Debt Service Fund

Schedule 12

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
 For the Year Ended December 31, 2011

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Interest	\$ --	\$ 24	\$ 24
Total Revenues	<u>--</u>	<u>24</u>	<u>24</u>
EXPENDITURES			
Bond principal	150,000	150,000	--
Interest	8,425	8,408	(17)
Agent fees	1,875	1,871	(4)
Total Expenditures	<u>160,300</u>	<u>160,279</u>	<u>(21)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(160,300)</u>	<u>(160,255)</u>	<u>45</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	160,000	160,000	--
Total other financing sources (uses)	<u>160,000</u>	<u>160,000</u>	<u>--</u>
Net change in fund balances	(300)	(255)	45
Fund Balance - beginning	<u>8,014</u>	<u>8,014</u>	<u>--</u>
Fund Balance - ending	<u>\$ 7,714</u>	<u>\$ 7,759</u>	<u>\$ 45</u>

\$77K General Obligation Equipment Certificates, Series 2007B

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual

For the Year Ended December 31, 2011

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Property taxes	\$ 17,900	\$ 16,846	\$ (1,054)
Interest	--	2	2
Total Revenues	<u>17,900</u>	<u>16,848</u>	<u>(1,052)</u>
EXPENDITURES			
Bond principal	15,000	15,000	--
Interest	<u>1,675</u>	<u>1,661</u>	<u>(14)</u>
Total Expenditures	<u>16,675</u>	<u>16,661</u>	<u>(14)</u>
Excess (deficiency) of revenues over (under) expenditures	1,225	187	(1,038)
Fund Balance - beginning	<u>3,254</u>	<u>3,254</u>	<u>--</u>
Fund Balance - ending	<u>\$ 4,479</u>	<u>\$ 3,441</u>	<u>\$ (1,038)</u>

\$315K General Obligation Improvement Bonds, Series 2007A

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual

For the Year Ended December 31, 2011

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Property taxes	\$ 25,300	\$ 23,494	\$ (1,806)
Special assessments	9,900	16,263	6,363
Interest	--	220	220
Total Revenues	<u>35,200</u>	<u>39,977</u>	<u>4,777</u>
EXPENDITURES			
Bond principal	30,000	30,000	--
Interest	10,900	10,875	(25)
Agent fees	300	313	13
Total Expenditures	<u>41,200</u>	<u>41,188</u>	<u>(12)</u>
Excess (deficiency) of revenues over (under) expenditures	(6,000)	(1,211)	4,789
Fund Balance - beginning	<u>70,735</u>	<u>70,735</u>	<u>--</u>
Fund Balance - ending	<u>\$ 64,735</u>	<u>\$ 69,524</u>	<u>\$ 4,789</u>

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
 For the Year Ended December 31, 2011

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Interest	\$ --	\$ 7	\$ 7
Total Revenues	<u>--</u>	<u>7</u>	<u>7</u>
EXPENDITURES			
Bond principal	21,000	21,000	--
Interest	5,000	4,410	(590)
Total Expenditures	<u>26,000</u>	<u>25,410</u>	<u>(590)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(26,000)</u>	<u>(25,403)</u>	<u>597</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	26,000	26,000	--
Total other financing sources (uses)	<u>26,000</u>	<u>26,000</u>	<u>--</u>
Net change in fund balances	--	597	597
Fund Balance - beginning	<u>2,055</u>	<u>2,055</u>	<u>--</u>
Fund Balance - ending	<u>\$ 2,055</u>	<u>\$ 2,652</u>	<u>\$ 597</u>

CITY OF SANDSTONE, MINNESOTA
 \$340 Lease Purchase - Public Works Property - 2011
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
 For the Year Ended December 31, 2011

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Interest	\$ --	\$ --	\$ --
Total Revenues	<u>--</u>	<u>--</u>	<u>--</u>
EXPENDITURES			
Bond principal	6,000	6,000	--
Interest	9,072	9,071	(1)
Total Expenditures	<u>15,072</u>	<u>15,071</u>	<u>(1)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(15,072)</u>	<u>(15,071)</u>	<u>1</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	15,100	15,100	--
Total other financing sources (uses)	<u>15,100</u>	<u>15,100</u>	<u>--</u>
Net change in fund balances	28	29	1
Fund Balance - beginning	<u>--</u>	<u>--</u>	<u>--</u>
Fund Balance - ending	<u><u>\$ 28</u></u>	<u><u>\$ 29</u></u>	<u><u>\$ 1</u></u>

CITY OF SANDSTONE, MINNESOTA
 Tax Abatement Financing Capital Project Fund

Schedule 17

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
 For the Year Ended December 31, 2011

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Tax Increment	\$ 3,100	\$ 2,933	\$ (167)
Miscellaneous	1,900	1,770	(130)
Total Revenues	<u>5,000</u>	<u>4,703</u>	<u>(297)</u>
EXPENDITURES			
Contractual Services	4,500	4,088	(412)
Administrative Fees	500	659	159
Total Expenditures	<u>5,000</u>	<u>4,747</u>	<u>(253)</u>
Excess (deficiency) of revenues over (under) expenditures	--	(44)	(44)
Fund Balance - beginning	<u>199</u>	<u>199</u>	<u>--</u>
Fund Balance - ending	<u>\$ 199</u>	<u>\$ 155</u>	<u>\$ (44)</u>

CITY OF SANDSTONE, MINNESOTA
 Tax Increment Financing Capital Project Fund

Schedule 18

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
 For the Year Ended December 31, 2011

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Tax Increments	\$ 5,500	\$ 5,934	\$ 434
Interest	25	--	(25)
Total Revenues	<u>5,525</u>	<u>5,934</u>	<u>409</u>
EXPENDITURES			
Capital Outlay	5,450	6,255	805
Miscellaneous	75	--	(75)
Total Expenditures	<u>5,525</u>	<u>6,255</u>	<u>730</u>
Excess (deficiency) of revenues over (under) expenditures	--	(321)	(321)
Fund Balance - beginning	<u>(27,624)</u>	<u>(27,624)</u>	<u>--</u>
Fund Balance - ending	<u>\$ (27,624)</u>	<u>\$ (27,945)</u>	<u>\$ (321)</u>

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CITY OF SANDSTONE, MINNESOTA
SUPPLEMENTARY FINANCIAL INFORMATION
December 31, 2011

CITY OF SANDSTONE, MINNESOTA
 \$655,000 General Obligation Refunding Bonds, Series 2009A
STATEMENT OF BOND AND INTEREST MATURITIES
 December 31, 2011

Schedule 19

<u>Maturity</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2/1/2012	2.00%	50,000.00	9,808.75	59,808.75
8/1/2012	2.00%	--	9,308.75	9,308.75
2/1/2013	2.50%	45,000.00	9,308.75	54,308.75
8/1/2013	2.50%	--	8,746.25	8,746.25
2/1/2014	2.50%	50,000.00	8,746.25	58,746.25
8/1/2014	2.50%	--	8,121.25	8,121.25
2/1/2015	3.00%	35,000.00	8,121.25	43,121.25
8/1/2015	3.00%	--	7,596.25	7,596.25
2/1/2016	3.25%	35,000.00	7,596.25	42,596.25
8/1/2016	3.25%	--	7,027.50	7,027.50
2/1/2017	3.50%	40,000.00	7,027.50	47,027.50
8/1/2017	3.50%	--	6,327.50	6,327.50
2/1/2018	3.50%	45,000.00	6,327.50	51,327.50
8/1/2018	3.50%	--	5,540.00	5,540.00
2/1/2019	4.00%	40,000.00	5,540.00	45,540.00
8/1/2019	4.00%	--	4,740.00	4,740.00
2/1/2020	4.00%	45,000.00	4,740.00	49,740.00
8/1/2020	4.00%	--	3,840.00	3,840.00
2/1/2021	4.00%	45,000.00	3,840.00	48,840.00
8/1/2021	4.00%	--	2,940.00	2,940.00
2/1/2022	4.20%	50,000.00	2,940.00	52,940.00
8/1/2022	4.20%	--	1,890.00	1,890.00
2/1/2023	4.20%	55,000.00	1,890.00	56,890.00
8/1/2023	4.20%	--	735.00	735.00
2/1/2024	4.20%	35,000.00	735.00	35,735.00
Totals		<u>\$ 570,000.00</u>	<u>\$ 143,433.75</u>	<u>\$ 713,433.75</u>

CITY OF SANDSTONE, MINNESOTA
 \$430,000 General Obligation Improvement Bonds, Series 2009B
STATEMENT OF BOND AND INTEREST MATURITIES
 December 31, 2011

Schedule 20

<u>Maturity</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2/1/2012	3.25%	75,000.00	5,931.25	80,931.25
8/1/2012	3.25%	--	4,712.50	4,712.50
2/1/2013	3.25%	75,000.00	4,712.50	79,712.50
8/1/2013	3.25%	--	3,493.75	3,493.75
2/1/2014	3.25%	75,000.00	3,493.75	78,493.75
8/1/2014	3.25%	--	2,275.00	2,275.00
2/1/2015	3.25%	20,000.00	2,275.00	22,275.00
8/1/2015	3.25%	--	1,950.00	1,950.00
2/1/2016	3.25%	20,000.00	1,950.00	21,950.00
8/1/2016	3.25%	--	1,625.00	1,625.00
2/1/2017	3.25%	25,000.00	1,625.00	26,625.00
8/1/2017	3.25%	--	1,218.75	1,218.75
2/1/2018	3.25%	25,000.00	1,218.75	26,218.75
8/1/2018	3.25%	--	812.50	812.50
2/1/2019	3.25%	25,000.00	812.50	25,812.50
8/1/2019	3.25%	--	406.25	406.25
2/1/2020	3.25%	25,000.00	406.25	25,406.25
	Totals	<u>\$ 365,000.00</u>	<u>\$ 38,918.75</u>	<u>\$ 403,918.75</u>

CITY OF SANDSTONE, MINNESOTA
 \$315,000 General Obligation Improvement Bonds, Series 2007A
STATEMENT OF BOND AND INTEREST MATURITIES
 December 31, 2011

Schedule 21

<u>Maturity</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2/1/2012	4.35%	30,000.00	5,111.25	35,111.25
8/1/2012			4,458.75	4,458.75
2/1/2013	4.35%	30,000.00	4,458.75	34,458.75
8/1/2013			3,806.25	3,806.25
2/1/2014	4.35%	30,000.00	3,806.25	33,806.25
8/1/2014			3,153.75	3,153.75
2/1/2015	4.35%	35,000.00	3,153.75	38,153.75
8/1/2015			2,392.50	2,392.50
2/1/2016	4.35%	35,000.00	2,392.50	37,392.50
8/1/2016			1,631.25	1,631.25
2/1/2017	4.35%	35,000.00	1,631.25	36,631.25
8/1/2017			870.00	870.00
2/1/2018	4.35%	40,000.00	870.00	40,870.00
	Totals	<u>\$ 235,000.00</u>	<u>\$ 37,736.25</u>	<u>\$ 272,736.25</u>

CITY OF SANDSTONE, MINNESOTA
 \$401,500 General Obligation Water Revenue Note

Schedule 22

STATEMENT OF BOND AND INTEREST MATURITIES

December 31, 2011

<u>Maturity</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2/20/2012	2.110%		1,983.40	1,983.40
8/20/2012	2.110%	22,000.00	1,983.40	23,983.40
2/20/2013	2.110%		1,751.30	1,751.30
8/20/2013	2.110%	22,000.00	1,751.30	23,751.30
2/20/2014	2.110%		1,519.20	1,519.20
8/20/2014	2.110%	23,000.00	1,519.20	24,519.20
2/20/2015	2.110%		1,276.55	1,276.55
8/20/2015	2.110%	23,000.00	1,276.55	24,276.55
2/20/2016	2.110%		1,033.90	1,033.90
8/20/2016	2.110%	24,000.00	1,033.90	25,033.90
2/20/2017	2.110%		780.70	780.70
8/20/2017	2.110%	24,000.00	780.70	24,780.70
2/20/2018	2.110%		527.50	527.50
8/20/2018	2.110%	25,000.00	527.50	25,527.50
2/20/2019	2.110%		263.75	263.75
8/20/2019	2.110%	25,000.00	263.75	25,263.75
	Totals	<u>\$ 188,000.00</u>	<u>\$ 18,272.60</u>	<u>\$ 206,272.60</u>

CITY OF SANDSTONE, MINNESOTA

Schedule 23

\$1,500,000 General Obligation Wastewater Revenue Refunding Bonds, Series 2001

STATEMENT OF BOND AND INTEREST MATURITIES

December 31, 2011

<u>Maturity</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2/1/2012	4.35%	120,000.00	2,610.00	122,610.00
	Totals	<u>\$ 120,000.00</u>	<u>\$ 2,610.00</u>	<u>\$ 122,610.00</u>

\$5,255,000 Economic Development Authority Housing and Development

Gross Revenue Refunding Bonds Series 2004 A & B

STATEMENT OF BOND AND INTEREST MATURITIES

December 31, 2011

<u>Maturity</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2/1/2012	4.785%	85,000.00	101,474.00	186,474.00
8/1/2012	4.785%	80,000.00	99,859.00	179,859.00
2/1/2013	4.785%	85,000.00	98,339.00	183,339.00
8/1/2013	4.785%	85,000.00	96,554.00	181,554.00
2/1/2014	4.785%	85,000.00	94,769.00	179,769.00
8/1/2014	4.785%	90,000.00	92,984.00	182,984.00
2/1/2015	4.785%	90,000.00	91,094.00	181,094.00
8/1/2015	4.785%	90,000.00	88,956.00	178,956.00
2/1/2016	4.785%	95,000.00	86,819.00	181,819.00
8/1/2016	4.785%	95,000.00	84,563.00	179,563.00
2/1/2017	4.785%	100,000.00	82,306.00	182,306.00
8/1/2017	4.785%	100,000.00	79,931.00	179,931.00
2/1/2018	4.785%	105,000.00	77,556.00	182,556.00
8/1/2018	4.785%	105,000.00	75,063.00	180,063.00
2/1/2019	4.785%	110,000.00	72,528.00	182,528.00
8/1/2019	4.785%	110,000.00	69,847.00	179,847.00
2/1/2020	4.785%	115,000.00	67,166.00	182,166.00
8/1/2020	4.785%	115,000.00	64,363.00	179,363.00
2/1/2021	4.785%	120,000.00	61,559.00	181,559.00
8/1/2021	4.785%	125,000.00	58,634.00	183,634.00
2/1/2022	4.785%	125,000.00	55,588.00	180,588.00
8/1/2022	4.785%	125,000.00	52,541.00	177,541.00
2/1/2023	4.785%	135,000.00	49,494.00	184,494.00
8/1/2023	4.785%	135,000.00	46,203.00	181,203.00
2/1/2024	4.785%	140,000.00	42,913.00	182,913.00
8/1/2024	4.785%	140,000.00	39,500.00	179,500.00
2/1/2025	4.785%	145,000.00	36,000.00	181,000.00
8/1/2025	4.785%	145,000.00	32,375.00	177,375.00
2/1/2026	4.785%	155,000.00	28,750.00	183,750.00
8/1/2026	4.785%	155,000.00	24,875.00	179,875.00
2/1/2027	4.785%	160,000.00	21,000.00	181,000.00
8/1/2027	4.785%	160,000.00	17,000.00	177,000.00
2/1/2028	4.785%	170,000.00	13,000.00	183,000.00
8/1/2028	4.785%	175,000.00	8,750.00	183,750.00
2/1/2029	4.785%	175,000.00	4,375.00	179,375.00
	Totals	<u>\$4,225,000.00</u>	<u>\$2,116,728.00</u>	<u>\$6,341,728.00</u>

CITY OF SANDSTONE, MINNESOTA
 \$77,000 General Obligation Equipment Certificates, Series 2007B
STATEMENT OF BOND AND INTEREST MATURITIES
 December 31, 2011

Schedule 25

<u>Maturity</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2/1/2012	4.10%	16,000.00	676.50	16,676.50
8/1/2012			348.50	348.50
2/1/2013	4.10%	17,000.00	348.50	17,348.50
	Totals	<u>\$ 33,000.00</u>	<u>\$ 1,373.50</u>	<u>\$ 34,373.50</u>

CITY OF SANDSTONE, MINNESOTA
 \$340,000 Lease Purchase Public Works Building and Land
 Lease Purchase with First National Bank of the North

Schedule 26

STATEMENT OF LEASE / PURCHASE PRINCIPAL AND INTEREST
 December 31, 2011

Maturity	Interest Rate	Principal	Interest	Total
2/1/2012	4.309%	8,000.00	7,097.50	15,097.50
8/1/2012	4.309%	9,000.00	6,927.50	15,927.50
2/1/2013	4.309%	9,000.00	6,736.25	15,736.25
8/1/2013	4.309%	9,000.00	6,545.00	15,545.00
2/1/2014	4.309%	9,000.00	6,353.75	15,353.75
8/1/2014	4.309%	9,000.00	6,162.50	15,162.50
2/1/2015	4.309%	10,000.00	5,971.25	15,971.25
8/1/2015	4.309%	10,000.00	5,758.75	15,758.75
2/1/2016	4.309%	10,000.00	5,546.25	15,546.25
8/1/2016	4.309%	10,000.00	5,333.75	15,333.75
2/1/2017	4.309%	10,000.00	5,121.25	15,121.25
8/1/2017	4.309%	11,000.00	4,908.75	15,908.75
2/1/2018	4.309%	11,000.00	4,675.00	15,675.00
8/1/2018	4.309%	11,000.00	4,441.25	15,441.25
2/1/2019	4.309%	11,000.00	4,207.50	15,207.50
8/1/2019	4.309%	12,000.00	3,973.75	15,973.75
2/1/2020	4.309%	12,000.00	3,718.75	15,718.75
8/1/2020	4.309%	12,000.00	3,463.75	15,463.75
2/1/2021	4.309%	12,000.00	3,208.75	15,208.75
8/1/2021	4.309%	13,000.00	2,953.75	15,953.75
2/1/2022	4.309%	13,000.00	2,677.50	15,677.50
8/1/2022	4.309%	13,000.00	2,401.25	15,401.25
2/1/2023	4.309%	13,000.00	2,125.00	15,125.00
8/1/2023	4.309%	14,000.00	1,848.75	15,848.75
2/1/2024	4.309%	14,000.00	1,551.25	15,551.25
8/1/2024	4.309%	14,000.00	1,253.75	15,253.75
2/1/2025	4.309%	15,000.00	956.25	15,956.25
8/1/2025	4.309%	15,000.00	637.50	15,637.50
2/1/2026	4.309%	15,000.00	318.75	15,318.75
Totals		<u>\$ 334,000.00</u>	<u>\$ 116,875.00</u>	<u>\$ 450,875.00</u>

Schedule of Uses of Public Funds
For Economic Development District 1-2
Tax Increment District within Development District No. 1
For the Fiscal Year Ended December 31, 2011

	Original TIF Plan Budget Amount	Most Recent Modified TIF Plan Budget Amount	Accounted For In Prior Years Amount	2011 Current Year Amount
<u>Revenues and other finances</u>				
Revenues:				
Tax increment revenues	\$ 96,270	\$ 96,270	\$ 75,173	\$ 5,934
Interest on invested funds	--	--	1,770	--
Total Revenue and other finances	<u>96,270</u>	<u>96,270</u>	<u>76,943</u>	<u>5,934</u>
<u>Expenditures and other financing uses</u>				
Expenditures:				
Land acquisition	--	25,000	25,000	--
Site improvements	--	46,250	45,412	838
Installation of public utilities	--	4,000	--	4,000
Parking facility	--	7,300	--	1,417
Streets & sidewalks	--	2,000	--	--
Loan interest payments	--	2,790	--	--
Administrative costs	9,444	9,654	4,824	--
Prior year adjustment	--	--	805	--
Due to other funds	--	--	30,743	--
Total expenditures and other financing uses	<u>9,444</u>	<u>96,994</u>	<u>106,784</u>	<u>6,255</u>
Revenues & other financing sources over				
(under) expenditures and other financing uses	<u>\$ 86,826</u>	<u>\$ (724)</u>	<u>\$ (29,841)</u>	<u>\$ (321)</u>

CITY OF SANDSTONE, MINNESOTA
OTHER REPORTS
December 31, 2011

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AMERICAN INSTITUTE OF C.P.A.'S
MINNESOTA SOCIETY OF C.P.A.'S

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

Honorable Mayor and Common Council
City of Sandstone, Minnesota

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Sandstone, Minnesota, as of and for the year ended December 31, 2011, which collectively comprise the City of Sandstone, Minnesota's basic financial statements and have issued our report thereon dated May 15, 2012. 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered City of Sandstone, Minnesota's internal control over financial reporting as a basis for designing our auditing procedures 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 of Sandstone, Minnesota's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Sandstone, Minnesota's internal control over financial reporting.

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 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



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Compliance and Other Matters

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

Minnesota Legal Compliance

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions* 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 study included all of the listed categories.

The results of our tests indicate that for the items tested, the City of Sandstone, Minnesota complied with the material terms and conditions of applicable legal provisions.

This report is intended solely for the information and use of management, the audit committee, and the City Council and is not intended to be and should not be used by anyone other than these specified parties.

Althoff & Nordquist, LLC

Althoff & Nordquist, LLC
Pine City, Minnesota
May 15, 2012