

CITY OF SANDSTONE, MINNESOTA  
**BASIC FINANCIAL STATEMENTS**  
For the Year Ended December 31, 2012

CITY OF SANDSTONE, MINNESOTA

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CITY OF SANDSTONE, MINNESOTA  
INTRODUCTORY SECTION  
December 31, 2012

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CITY OF SANDSTONE, MINNESOTA

**ORGANIZATION**

December 31, 2012

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, 2012

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CARL D. NORDQUIST, JR., C.P.A.  
ROBERT R. ALTHOFF, C.P.A.

MEMBERS  
AMERICAN INSTITUTE OF C.P.A.'S  
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, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

### Opinions

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



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## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 11 through 30 and 45 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considered 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 inquires 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 and opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City 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 purpose of additional analysis and are not a required part of the 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 basic financial statements. Such 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.

## Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have issued our report dated May 29, 2013 on our consideration of the City of Sandstone, Minnesota's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing on internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Sandstone, Minnesota's internal control over financial reporting and compliance.



Althoff and Nordquist, LLC  
Pine City, Minnesota  
May 29, 2013

**CITY OF SANDSTONE, MINNESOTA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
For the Year Ended December 31, 2012

## 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 2012. 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 22, supplementary financial information, page 94, and with the notes beginning on page 50.

### 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 22, 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 24, 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, ie earned but unused vacation leave.

2. Fund financial statements, page 28, 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 50, 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 seventeen 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, debt service fund for Minnesota Street improvement 2007A bond and EDA fund which are considered to be major funds for fiscal year 2012. Financial information from the remaining thirteen 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 Minnesota Street improvement 2007A bond fund was closed by refunding by the G.O Improvement and refunding 2012A bond. The Golf enterprise fund was closed after the sale of the golf course in 2012. The TIF district fund, (decertified in 2011) was also closed after approval of City Council. 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.

## Financial Highlights

- Total assets for governmental activities are \$7,643,604 and total liabilities are \$2,365,829 with total net assets of \$5,277,775 for fiscal year-end 2012. Of this amount, \$1,184,843 (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 activities total net assets increased by \$4,800. Fund balance increased in total governmental funds from \$2,322,245 in 2011 to \$2,458,609 in 2012.
- The unassigned fund balance for the general fund was \$462,097 or 36 percent of total general fund expenditures and 43% of fund operating revenues.
- Total governmental activity outstanding debt obligations decreased by \$130,000 with reduction of debt service by regular scheduled bond payments (per reconciliation). Business-type activity debt service increased by \$50,000 with the refunding of the Wild River bond.

## Analysis of Financial Activities – Government wide

The capital projects included road improvements completion on Division and Old Military Roads. Bonding for the project was completed in 2012. The Golf course was sold in 2012.

The fiscal year end December 31, 2012 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, 2012 is \$14,565,256 (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, 2012, are as follows:

	<u>Beginning</u> <u>Balances</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending</u> <u>Balances</u>
<u>Governmental Activities</u>				
Total Capital Assets	10,555,213	47,307	39,146	10,563,374
Total Accumulated Depreciation	<u>5,862,830</u>	<u>287,685</u>	<u>23,941</u>	<u>6,126,574</u>
Total Capital Assets, Net of Depreciation	<u>\$ 4,692,383</u>	<u>\$ (240,378)</u>	<u>\$ 15,205</u>	<u>\$ 4,436,800</u>
<u>Business - Type Activities</u>				
Total Capital Assets	20,380,384	7,771	508,143	19,880,012
Total Accumulated Depreciation	<u>9,728,538</u>	<u>421,881</u>	<u>395,863</u>	<u>9,751,556</u>
Business - Type Capital Assets, Net	<u>\$ 10,651,846</u>	<u>\$ (414,110)</u>	<u>\$ 109,280</u>	<u>\$ 10,128,456</u>

Governmental assets decrease of \$255,583 reflects annual depreciation. Governmental asset decrease (39,146) was due to sale of golf course equipment originally purchased by the general fund.

Business type activities total capital assets decreased by \$500,372 from the sale of the golf course.

## 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 2011 and 2012 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

	Governmental Activities		Business- Type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
Assets:						
Current and other assets	\$ 3,206,804	\$ 3,137,802	\$ 3,265,492	\$ 3,001,472	\$ 6,472,296	\$ 6,139,274
Capital assets	4,436,800	4,692,383	10,354,621	10,766,895	14,791,421	15,459,278
<b>Total assets</b>	<b>\$ 7,643,604</b>	<b>\$ 7,830,185</b>	<b>\$ 13,620,113</b>	<b>\$ 13,768,367</b>	<b>\$ 21,263,717</b>	<b>\$ 21,598,552</b>
Liabilities:						
Other liabilities	\$ 650,829	\$ 712,210	\$ 120,351	\$ 603,033	\$ 771,180	\$ 1,315,243
Long-term debt outstanding	1,715,000	1,845,000	4,275,000	4,225,000	5,990,000	6,070,000
<b>Total liabilities</b>	<b>2,365,829</b>	<b>2,557,210</b>	<b>4,395,351</b>	<b>4,828,033</b>	<b>6,761,180</b>	<b>7,385,243</b>
Net assets:						
Invested in capital assets, net of debt	2,928,800	2,847,383	6,023,074	6,426,846	8,951,874	9,274,229
Restricted	1,164,132	1,818,515	1,992,713	1,216,849	3,156,845	3,035,364
Unrestricted (deficit)	1,184,843	607,077	1,208,975	1,296,639	2,393,818	1,903,716
<b>Total Net assets</b>	<b>\$ 5,277,775</b>	<b>\$5,272,975</b>	<b>\$ 9,224,762</b>	<b>\$ 8,940,334</b>	<b>\$ 14,502,537</b>	<b>\$ 14,213,309</b>

The largest portion of the City of Sandstone's total net asset is invested in capital assets (net) of \$2,928,800. The investments in capital assets are used to provide services to citizens and are not available for future spending. The unrestricted net assets of \$1,184,843 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 (\$6,023,074), which include all infrastructure and buildings of water, sewer, storm water and Wild River Apartments.

The City of Sandstone reported a decrease in net assets for governmental activities of \$106,109 and an increase in business-type activities of \$332,702 after transfers. Key elements of this increase and decrease are as follows:

**Changes in Net Assets**

	<u>Governmental Activities</u>		<u>Business- Type Activities</u>		<u>Total Primary Government</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Program revenues:						
Charges for services	\$ 153,542	\$ 268,475	\$ 1,230,039	\$ 1,349,892	\$ 1,383,581	\$ 1,618,367
Grants	976,566	834,567	--	--	976,566	834,567
General revenues:						
Property taxes	463,465	441,611	--	--	463,465	441,611
Other taxes	--	5,934	--	--	--	5,934
Other general revenues	12,602	22,340	124,880	48,680	137,482	71,020
Total revenues	<u>1,606,175</u>	<u>1,572,927</u>	<u>1,354,919</u>	<u>1,398,572</u>	<u>2,961,094</u>	<u>2,971,499</u>
Program expenses:						
General government	620,038	632,219	-	-	620,038	632,219
Public safety	302,098	258,781	-	-	302,098	258,781
Public works	262,249	223,033	-	-	262,249	223,033
Culture and Recreation	32,590	24,070	-	-	32,590	24,070
Other general expenditures	63,731	148,225	-	-	63,731	148,225
Debt service	56,995	60,959	-	-	56,995	60,959
Capital expenditures	180,623	200,196	-	-	180,623	200,196
Water	--	--	196,654	209,369	196,654	209,369
Sewer	--	--	301,252	312,005	301,252	312,005
Storm water	--	--	23,462	27,461	23,462	27,461
Golf	--	--	36,068	187,230	36,068	187,230
Wild River Apartments	--	--	596,106	625,316	596,106	625,316
Total expenses	<u>1,518,324</u>	<u>1,547,483</u>	<u>1,153,542</u>	<u>1,361,381</u>	<u>2,671,866</u>	<u>2,908,864</u>
Excess (deficiency) before						
special items and transfers	87,851	25,444	201,377	37,191	289,228	62,635
Transfers in (out)	<u>(83,051)</u>	<u>85,465</u>	<u>83,051</u>	<u>(85,465)</u>	<u>--</u>	<u>--</u>
Increase (decrease) in net assets	<u>\$ 4,800</u>	<u>\$ 110,909</u>	<u>\$ 284,428</u>	<u>\$ (48,274)</u>	<u>\$ 289,228</u>	<u>\$ 62,635</u>

Charges for services revenues in 2012 do not include administration charges for departments under governmental activities.

Business-type activities showed an increase in net assets of \$284,428 due to the sale of the golf course and reduced expenses of \$151,162 and the Wild River Apartments bond being refunded to a lower interest bond.

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

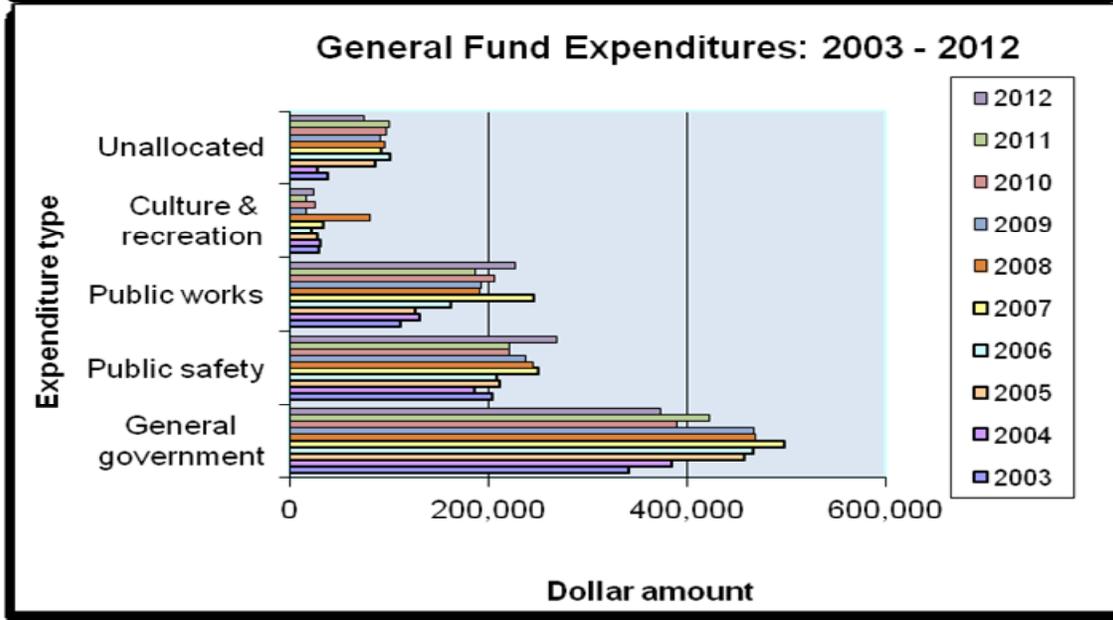
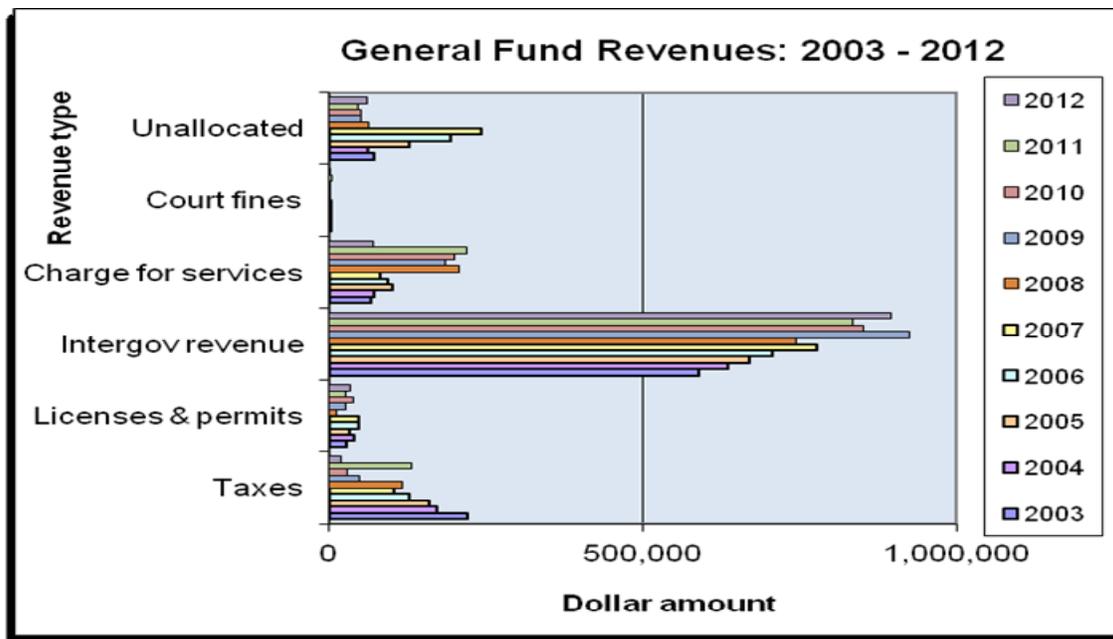
## General Fund

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 decreased by \$199,057 from \$1,470,582 in fiscal year 2011 to \$1,271,525 in 2012. The decrease reflects the transfer of \$187,724 to close the Golf fund cash deficit after sale proceeds. Taxes decreased from 129,909 in 2011 to \$16,365 in 2012. Intergovernmental revenue increased \$61,985 primarily from state fire aid. Charges for services decreased \$147,354 primarily due to the change in payroll accounting allocation to various funds. The payroll is charged directly to the funds in 2012.

Expenditures increased from \$947,637 in 2011 to \$969,925 in 2012 and revenue decreased \$179,457. This contributed to the general fund balance decrease from \$1,483,569 in 2011 to \$1,270,204 in 2012.

The following two graphs show the general fund revenues and expenditures comparison from 2003 through 2012.

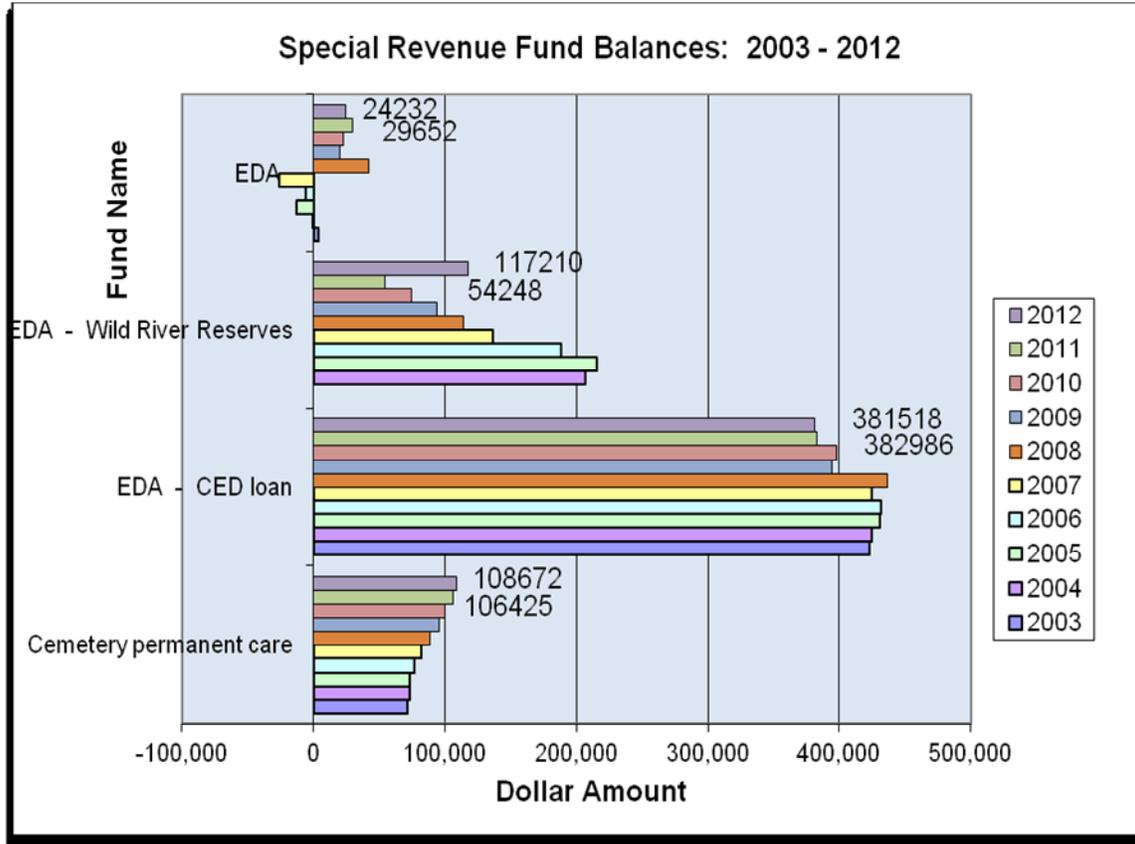


## Special Revenue Funds

*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 2012.

Special revenue funds reflect minor variations between fund balances from fiscal year 2003 to 2012.



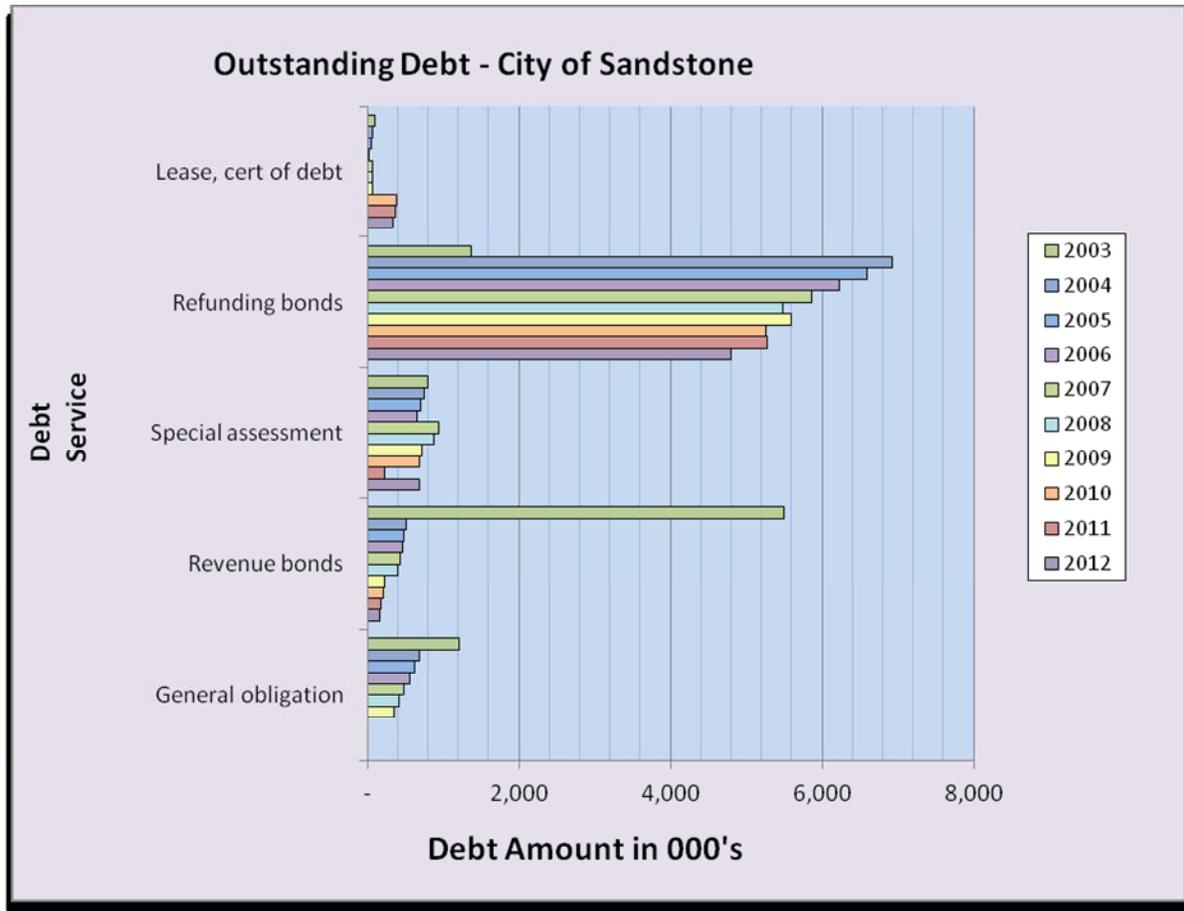
The EDA Wild River Reserves fund balance increased by \$62,962. Bond payment shortfall of \$76,886 was less than the taxes collected of \$153,693.

## 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 has eight debt service funds. The 2007A Minnesota Street Improvement Bond qualified as a major fund and was refunded by the 2012A General Obligation Improvement and Refunding Bond. The 2011- 2012 improvements included two street reconstruction projects.

The following chart reflects the City of Sandstone types of bonds and bond outstanding balances for fiscal year end 2003-2012.



The 2001 Wastewater Revenue Bond was retired in 2012.

The City of Sandstone's total net bonds and notes payable principal decreased by \$535,000 during the 2012 fiscal year. The decrease is the result of scheduled debt payments. The fiscal year end principal balance changed from \$1,845,000 in 2011 to \$1,310,000 in 2012.

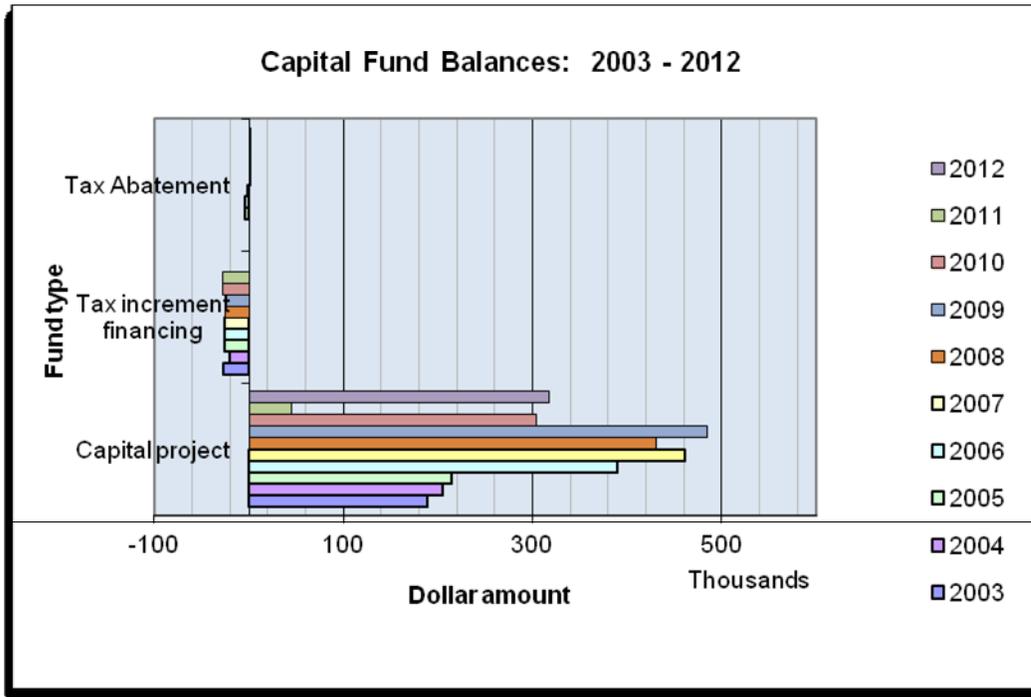
The Economic Development Authority (EDA) refunded debt to reduce bond rates and reduce annual principal and interest payment. The bond principal balance increased from \$4,225,000 in 2011 to \$4,275,000 in 2012.

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

## 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 2012. 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 was decertified December 31, 2011. The fund was closed in 2012 after Council approved the reversal of a due to the Capital fund, due from the Tax Increment fund recorded from 1994 to bring fund balance to zero.



The capital projects fund balance increased from \$45,197 in 2011 to \$317,958 in 2012.

Expenditures for the capital project fund for fiscal year 2012 included street maintenance and culverts of approximately \$25,273.

Other capital expenditures included the 2011 final completion Old Military Road and Division Street upgrades of \$18,794. This was financed with bonding in 2012 that also covered the upgrade costs incurred in 2011. The residual demolition cost for the Milk Drying Plant building of \$20,780 was expensed. Roof projects at Johnson and Train parks, fencing and library study costs of \$17,358 were completed in 2012.

## 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 2009 to 2012 comparison:

	2012 Total	2011 Total	2010 Total	2009 Total	2011-12 Change
Operating revenues:					
Sales & charges for services	1,221,595	1,346,871	1,311,124	1,280,273	(125,273)
Unallocated revenue	8,444	3,021	3,019	2,177	5,423
Total operating revenues	1,230,039	1,349,892	1,314,143	1,282,450	(119,850)
Operating expenses:					
Maintenance and operations	542,153	716,642	703,801	749,142	(174,489)
Depreciation	435,523	436,076	437,553	451,028	(553)
Total Operating Expenses	977,676	1,152,718	1,141,354	1,200,170	175,042)
Operating Income (Loss)	252,363	197,174	172,789	82,280	55,192
Non-operating revenues (expenses):					
Interest earned	38,229	48,680	42,135	71,695	(10,451)
Sale of Assets/Property	86,651	--	--	--	86,651
Interest expense	(175,866)	(208,663)	(218,127)	(221,943)	32,797
Agent fees	--	--	(3,000)	(3,000)	--
Total non-operating revenues (exp)	(50,986)	(159,983)	(178,992)	(153,248)	108,997
Net Income (loss) before transfers	201,377	37,191	(6,203)	(70,968)	164,189
Transfers In	277,360	148,225	148,225	148,219	129,135
Transfers out	(194,309)	(233,690)	(228,796)	(261,693)	39,381
Changes in net assets	284,428	(48,274)	(86,774)	(184,442)	332,705
Total net assets - beginning	8,940,334	8,988,608	9,075,381	9,259,823	(48,273)
Total net assets - ending	9,224,762	8,940,334	8,988,607	9,075,381	284,432

Operating Revenue – decrease	\$ (119,850)
Operating Expense - increase	\$ 55,192
Non-operating Revenue – decrease (expense)	\$ 108,997

Net assets decreased by \$284,432. The decreases came from sewer (39M), water (32M) and golf (233M) funds. The golf course was sold in 2012.

Wild River apartments fund operating revenues increased by \$28,282 offset by the operating expenses increase of \$28,509. The net assets increased by \$115,121, reflecting a reduction in interest expense as the bonds were refunded in 2012, reducing interest expense through the life of the bonds. They continue to require the same tax levy for debt service of \$150,000 for 2012 as in 2011 and 2010.

Net assets for the Water Fund decreased \$30,842 and Sewer Fund decreased \$38,642. Storm Water Fund increased net assets by \$5,743. More detailed information can be found for the proprietary funds in the statement of revenues, expenses, and changes in fund net assets.

## **In Conclusion**

City remains involved in the Northern Lights Express passenger rail project.

City remains involved in working with Essentia and the North Pine Area Hospital District in planning for a new hospital facility on a new medical campus.

City completed the demolition of a large hazardous commercial property and the assessment of the costs to the owner.

The City closed on the sale of the municipal Golf Course to a private buyer.

The EDA continues to negotiate with a non-profit to sell them the Old Sandstone School for re-use. EDA and potential buyer continue to work through environmental issues.

The EDA completed a \$ 4,275,000 refunding of the Wild River apartments project. The \$ 3,000,000 G.O. Revenue refunding bonds portion received a Standard & Poor's "A" rating

City completed the Initiative Foundation's Thriving Communities program and received grant funds to begin carrying out activities planned by three Task Forces.

City signed a \$ 374,000 contract for a new fire truck pumper for delivery in 2013.

City hired LHB Architects to lead the planning process for new public library space.

City began work on a comprehensive Capital Improvements Plan.

City closed out its Economic Development Tax Increment District 1-2.

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, 2012

**STATEMENT OF NET ASSETS**

December 31, 2012

*(With Comparative Amounts for December 31, 2011)*

	Governmental Activities	Business - Type Activities	2012 Total	2011 Total
<b>ASSETS</b>				
Cash & cash equivalents	\$ 1,695,501	\$ 1,173,249	\$ 2,868,750	\$ 1,912,891
Cash with Fiscal Agent	--	376,195	376,195	246,866
Investments	124,199	1,184,758	1,308,957	1,088,569
Accounts receivable	40,675	38,982	79,657	109,625
Delinquent property tax	50,900	--	50,900	44,566
Special assessments receivable	4,327	5,586	9,913	9,449
Special assessments deferred	93,650	--	93,650	115,002
Due from other funds	96,100	476,381	572,481	1,082,635
Bond discount	1,698	--	1,698	8,361
Inventory	--	--	--	1,803
Prepaid expenses	21,083	10,341	31,424	32,547
Restricted cash	767,571	--	767,571	893,531
Restricted investments	311,100	--	311,100	593,429
Deferred charges	--	--	--	115,049
Capital assets, net	4,436,800	10,354,621	14,791,421	15,344,229
Total assets	<u>\$ 7,643,604</u>	<u>\$ 13,620,113</u>	<u>\$ 21,263,717</u>	<u>\$ 21,598,552</u>
<b>LIABILITIES</b>				
Cash in bank -(overdraft)	\$ --	\$ --	\$ --	\$ --
Accounts payable	4,861	11,751	16,612	17,756
Due to other funds	572,481	--	572,481	1,082,635
Accrued expenses	21,643	--	21,643	19,712
Deferred revenue	--	5,585	5,585	5,150
Security deposits	--	45,140	45,140	44,470
Interest payable	51,844	57,875	109,719	145,520
Non current liabilities:				
Due within one year	207,000	200,000	407,000	495,000
Due in more than one year	1,508,000	4,075,000	5,583,000	5,575,000
Total liabilities	<u>2,365,829</u>	<u>4,395,351</u>	<u>6,761,180</u>	<u>7,385,243</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	2,928,800	6,023,074	8,951,874	9,274,229
Restricted for:				
Special revenue	607,400	--	607,400	323,311
Debt service	238,774	--	238,774	247,959
Capital projects	317,958	--	317,958	553,852
Other purposes	--	1,992,713	1,992,713	1,910,242
Unrestricted	1,184,843	1,208,975	2,393,818	1,903,716
Total net assets	<u>5,277,775</u>	<u>9,224,762</u>	<u>14,502,537</u>	<u>14,213,309</u>
Total Liabilities and Net Assets	<u>\$ 7,643,604</u>	<u>\$ 13,620,113</u>	<u>\$ 21,263,717</u>	<u>\$ 21,598,552</u>

See Notes to Financial Statements.

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CITY OF SANDSTONE, MINNESOTA  
**STATEMENT OF ACTIVITIES**  
For the Year Ended December 31, 2012  
*(With Comparative Amounts for the Year Ended December 31, 2011)*

<u>Functions/Programs</u>	Program Revenues			
<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
<b>Governmental Activities:</b>				
General government	\$ 620,038	\$ 73,362	\$ 976,566	\$ --
Public safety	302,098	--	--	--
Public works	262,249	--	--	--
Culture and recreation	32,590	20,562	--	--
Debt service	56,995	--	--	--
Capital expenditure	180,623	--	--	--
Unallocated	63,731	59,618	--	--
<b>Total Governmental Activities</b>	<b>1,518,324</b>	<b>153,542</b>	<b>976,566</b>	<b>--</b>
 <b>Business - Type Activities:</b>				
Golf course	36,068	2,988	--	--
Water utility	196,654	208,243	--	--
Sewer utility	301,252	362,322	--	--
Storm water	23,462	36,895	--	--
Wild River apartment	420,240	619,591	--	--
<b>Total Business - Type Activities</b>	<b>977,676</b>	<b>1,230,039</b>	<b>--</b>	<b>--</b>
 <b>General Revenues:</b>				
Property tax				
Tax increments				
Sale of Property				
Interest and investment earnings				
Transfers				
<b>Total General Revenues and Transfers</b>				
 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	2012 Total	2011 Total
\$ 429,890	\$ --	\$ 429,890	\$ 420,407
(302,098)	--	(302,098)	(258,781)
(262,249)	--	(262,249)	(223,033)
(12,028)	--	(12,028)	(24,070)
(56,995)	--	(56,995)	(60,959)
(180,623)	--	(180,623)	(200,196)
(4,113)	--	(4,113)	(97,809)
<u>(388,216)</u>	<u>--</u>	<u>(388,216)</u>	<u>(444,441)</u>
--	(33,080)	(33,080)	(68,373)
--	11,589	11,589	4,602
--	61,070	61,070	80,083
--	13,433	13,433	10,021
--	199,351	199,351	170,841
<u>--</u>	<u>252,363</u>	<u>252,363</u>	<u>197,174</u>
\$ 463,465	\$ --	\$ 463,465	\$ 441,612
--	--	--	5,934
--	86,651	86,651	--
12,602	(137,637)	(125,035)	(137,642)
(83,051)	83,051	--	--
<u>393,016</u>	<u>32,065</u>	<u>425,081</u>	<u>309,904</u>
4,800	284,428	289,228	62,637
<u>5,272,975</u>	<u>8,940,334</u>	<u>14,213,309</u>	<u>14,150,672</u>
<u>\$ 5,277,775</u>	<u>\$ 9,224,762</u>	<u>\$ 14,502,537</u>	<u>\$ 14,213,309</u>

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CITY OF SANDSTONE, MINNESOTA  
FUND FINANCIAL STATEMENTS  
December 31, 2012

CITY OF SANDSTONE, MINNESOTA  
Governmental Funds  
**BALANCE SHEET**  
December 31, 2012

	General Fund	Capital Project Fund	MN Street Improvement Bond 2007A
<b>ASSETS</b>			
Cash & cash equivalents	\$ 945,426	\$ --	\$ --
Investments	101,253	441	--
Accounts receivable	5,273	--	--
Delinquent property tax	6,716	12,276	--
Special assessments	216	--	--
Special assessments deferred	--	342	--
Due from other funds	--	--	--
Bond discount	--	--	--
Prepaid expense	19,910	1,173	--
Restricted cash	224,846	542,725	--
Restricted investments	--	--	--
Total Assets	\$ 1,303,640	\$ 556,957	\$ --
<b>LIABILITIES &amp; FUND BALANCE</b>			
<u>Liabilities:</u>			
Accounts payable	\$ 4,861	\$ --	\$ --
Accrued expenses	21,643	--	--
Due to other funds	--	226,381	--
Deferred revenue	6,932	12,618	--
Total Liabilities	33,436	238,999	--
<u>Fund Balance:</u>			
Nonspendable	19,910	1,173	--
Restricted	62,972	316,785	--
Committed	--	--	--
Assigned	725,225	--	--
Unassigned	462,097	--	--
Total fund balance	1,270,204	317,958	--
Total liabilities and fund balances	\$ 1,303,640	\$ 556,957	\$ --

See Notes to Financial Statements.

EDA Fund	Nonmajor Governmental Funds	Total Governmental Funds
\$ 120,332	\$ 629,743	\$ 1,695,501
--	22,505	124,199
--	35,402	40,675
84	31,824	50,900
--	4,111	4,327
--	93,308	93,650
--	96,100	96,100
--	1,698	1,698
--	--	21,083
--	--	767,571
250,000	61,100	311,100
<u>\$ 370,416</u>	<u>\$ 975,791</u>	<u>\$ 3,206,804</u>
\$ --	\$ --	\$ 4,861
--	--	21,643
346,100	--	572,481
84	129,576	149,210
<u>346,184</u>	<u>129,576</u>	<u>748,195</u>
--	--	21,083
--	--	379,757
--	--	--
24,232	846,215	1,595,672
--	--	462,097
<u>24,232</u>	<u>846,215</u>	<u>2,458,609</u>
<u>\$ 370,416</u>	<u>\$ 975,791</u>	<u>\$ 3,206,804</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, 2012

*(With Comparative Amounts for December 31, 2011)*

	<u>2012</u>	<u>2011</u>
Amounts reported for governmental activities in the Statements of Net Assets are different because:		
Total Governmental Fund Balance	\$ 2,458,609	\$ 2,322,245
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the Funds.		
Governmental Capital Assets	10,563,374	10,555,213
Less: Accumulated Depreciation	<u>(6,126,574)</u>	<u>(5,862,830)</u>
	<u>4,436,800</u>	<u>4,692,383</u>
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the Funds.		
Deferred Revenue	<u>149,210</u>	<u>164,305</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	(1,715,000)	(1,845,000)
Bond Interest Payable	<u>(51,844)</u>	<u>(60,958)</u>
	<u>(1,766,844)</u>	<u>(1,905,958)</u>
Net Assets of Governmental Activities	<u>\$ 5,277,775</u>	<u>\$ 5,272,975</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, 2012

	General Fund	Capital Project Fund	MN Street Improvement 2007A Fund
<b>REVENUES</b>			
Property taxes	\$ 16,365	\$ 136,132	\$ 15,040
Special assessments	2,085	2,222	7,820
Licenses & permits	32,185	--	--
Intergovernmental revenue	896,552	--	--
Charges for services	70,705	--	--
Court fines	2,657	--	--
Interest	5,822	1,942	64
Rent	20,562	--	--
Miscellaneous	33,654	1,735	--
Total Revenues	<u>1,080,587</u>	<u>142,031</u>	<u>22,924</u>
<b>EXPENDITURES</b>			
General government	373,394	--	--
Public safety	269,270	--	--
Public works	227,720	--	--
Culture & recreation	24,095	--	--
Miscellaneous	44,395	--	--
Debt service	--	--	243,472
Capital expenditures	--	205,225	--
Total Expenditures	<u>938,874</u>	<u>205,225</u>	<u>243,472</u>
Excess (deficiency) of revenues over (under) expenditures	<u>141,713</u>	<u>(63,194)</u>	<u>(220,548)</u>
<b>OTHER FINANCING RESOURCES (USES)</b>			
Bond proceeds	--	212,342	184,490
Transfer in	--	123,613	--
Transfer (out)	(355,078)	--	(33,466)
Total other financing sources (uses)	<u>(355,078)</u>	<u>335,955</u>	<u>151,024</u>
Net change in fund balances	(213,365)	272,761	(69,524)
Fund balances - beginning	<u>1,483,569</u>	<u>45,197</u>	<u>69,524</u>
Fund balances - ending	<u>\$ 1,270,204</u>	<u>\$ 317,958</u>	<u>\$ --</u>

See Notes to Financial Statements.

EDA Fund	Nonmajor Governmental Funds	Total Governmental Funds
\$ 10,429	\$ 285,499	\$ 463,465
--	35,702	47,829
--	--	32,185
--	--	896,552
--	--	70,705
--	--	2,657
425	4,349	12,602
--	--	20,562
--	24,229	59,618
<u>10,854</u>	<u>349,779</u>	<u>1,606,175</u>
--	--	373,394
--	--	269,270
--	--	227,720
--	--	24,095
770	14,977	60,142
--	357,637	601,109
15,504	7,201	227,930
<u>16,274</u>	<u>379,815</u>	<u>1,783,660</u>
(5,420)	(30,036)	(177,485)
--	68	396,900
--	258,766	382,379
--	(76,886)	(465,430)
<u>--</u>	<u>181,948</u>	<u>313,849</u>
(5,420)	151,912	136,364
<u>29,652</u>	<u>694,303</u>	<u>2,322,245</u>
<u>\$ 24,232</u>	<u>\$ 846,215</u>	<u>\$ 2,458,609</u>

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

Statement 6

December 31, 2012

*(With Comparative Amounts for December 31, 2011)*

	2012	2011
Amounts reported for governmental activities in the Statements of Activities are different because:		
Net Changes in Fund Balance - Total Governmental Funds	\$ 136,364	\$ (167,901)
<p>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.</p>		
Acquisition of assets	47,307	716,098
Depreciation expense	(287,685)	(282,673)
	(240,378)	433,425
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
Deferred revenue	(30,300)	31,709
<p>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.</p>		
Proceeds from issuance of bonds	(405,000)	-
Principal retirement on long-term debt	535,000	612,000
Accrued interest on bonds payable	9,114	19,836
	139,114	631,836
Change in net assets of Governmental Activities	\$ 4,800	\$ 929,069

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, 2012

	Original and Amended Budget Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>			
Taxes	\$ 2,100	\$ 16,365	\$ 14,265
Special assessments	5,000	2,085	(2,915)
Licenses & permits	25,000	32,185	7,185
Intergovernmental revenue	841,624	896,552	54,928
Charges for services	160,075	70,705	(89,370)
Court fines	2,500	2,657	157
Miscellaneous	37,200	60,038	22,838
Total Revenues	<u>1,073,499</u>	<u>1,080,587</u>	<u>7,088</u>
<b>EXPENDITURES</b>			
General government:			
Mayor & council	2,500	1,164	(1,336)
Executive	166,019	203,271	37,252
Elections & voter registration	3,200	3,091	(109)
Finance administration	36,325	70,929	34,604
Legal fees	34,000	31,032	(2,968)
Planning & zoning	50	68	18
City engineer	7,000	32,338	25,338
City hall	28,900	26,032	(2,868)
Economic development	23,000	5,469	(17,531)
Total general government	<u>300,994</u>	<u>373,394</u>	<u>72,400</u>
Public Safety:			
Safety	1,450	1,446	(4)
Police protection	109,226	108,927	(299)
Fire protection	126,845	150,466	23,621
Building inspections	18,100	8,035	(10,065)
Animal control	1,000	396	(604)
Total public safety	<u>256,621</u>	<u>269,270</u>	<u>12,649</u>
Public works:			
Administration			
Employee services	184,457	199,666	15,209
Street lighting	29,000	28,054	(946)
Total public works	<u>213,457</u>	<u>227,720</u>	<u>14,263</u>
Culture & Recreation:			
Park and recreation	14,655	17,072	2,417
Library	3,240	5,114	1,874
Airport	2,775	1,909	(866)
Total culture & recreation	<u>20,670</u>	<u>24,095</u>	<u>3,425</u>

See Notes to Financial Statements.

**Statement of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual**  
 For the Years Ended December 31, 2012

	Original and Amended Budget Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
Expenditures (Continued)			
Miscellaneous			
Cemetery	7,900	6,086	(1,814)
Non-departmental	70,058	38,309	(31,749)
Total miscellaneous	<u>77,958</u>	<u>44,395</u>	<u>(33,563)</u>
Total expenditures	<u>869,700</u>	<u>938,874</u>	<u>69,174</u>
Excess of revenues over (under) expenditures	<u>203,799</u>	<u>141,713</u>	<u>(62,086)</u>
Other Financing Sources (Uses):			
Transfer in	--	--	--
Transfer (out)	(121,615)	(355,078)	(233,463)
Total other financing sources (uses)	<u>(121,615)</u>	<u>(355,078)</u>	<u>(233,463)</u>
Net change in fund balance	82,184	(213,365)	(295,549)
Fund balance -beginning	<u>1,483,569</u>	<u>1,483,569</u>	<u>--</u>
Fund balance - ending	<u>\$ 1,565,753</u>	<u>\$ 1,270,204</u>	<u>\$ (295,549)</u>

See Notes to Financial Statements.

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CITY OF SANDSTONE, MINNESOTA  
Proprietary Funds  
**STATEMENT OF NET ASSETS**  
December 31, 2012

	Business - Type Activities - Enterprise Funds			
	Golf Fund	Water Utility Fund	Sewer Utility Fund	Storm Water Fund
<b>ASSETS</b>				
Current Assets:				
Cash & cash equivalents	\$ --	\$ 562,496	\$ 456,835	\$ 153,718
Cash with Fiscal Agent	--	--	--	--
Investments	--	--	1,184,758	--
Accounts receivable	--	9,742	15,544	1,659
Due from other funds	--	--	476,381	--
Inventory	--	--	--	--
Prepaid expenses	--	1,050	1,186	--
Special assessments receivable	--	3,351	2,235	--
Restricted cash	--	--	--	--
Total current assets	--	576,639	2,136,939	155,377
Noncurrent assets:				
Deferred charges	--	--	--	--
Capital assets:				
Land	--	--	--	--
Plant in service	--	4,543,341	9,921,957	1,000,924
Equipment and fixtures	--	--	45,144	--
Less: allowance for depreciation	--	(2,574,712)	(4,741,845)	(592,653)
Total noncurrent assets	--	1,968,629	5,225,256	408,271
Total assets	\$ --	\$ 2,545,268	\$ 7,362,195	\$ 563,648

See Notes to Financial Statements.

<u>Wild River Apartment Fund</u>	<u>Total</u>
\$ 200	\$ 1,173,249
376,195	376,195
--	1,184,758
12,037	38,982
--	476,381
--	--
8,105	10,341
--	5,586
--	--
<u>396,537</u>	<u>3,265,492</u>
--	--
157,015	157,015
4,451,438	19,917,660
--	45,144
<u>(1,855,988)</u>	<u>(9,765,198)</u>
<u>2,752,465</u>	<u>10,354,621</u>
<u>\$ 3,149,002</u>	<u>\$ 13,620,113</u>

CITY OF SANDSTONE, MINNESOTA  
Proprietary Funds  
**STATEMENT OF NET ASSETS**  
December 31, 2012

	Business - Type Activities - Enterprise Funds			
	Golf Fund	Water Utility Fund	Sewer Utility Fund	Storm Water Fund
<b>LIABILITIES</b>				
Current Liabilities:				
Cash in bank-(overdraft)	\$     --	\$     --	\$     --	\$     --
Accounts payable	--	--	--	--
Bonds payable-current	--	--	--	--
Deferred revenue	--	3,351	2,234	--
Due to other funds	--	--	--	--
Interest payable	--	--	--	--
Security deposits	--	--	--	--
Total Current Liabilities	--	3,351	2,234	--
Noncurrent liabilities:				
Bonds payable	--	--	--	--
Total noncurrent liabilities	--	--	--	--
Total liabilities	--	3,351	2,234	--
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	--	1,968,629	5,225,256	408,271
Restricted for:				
Restricted assets	--	341,965	1,641,593	--
Prepaid items	--	1,050	--	--
Unrestricted	--	230,273	493,112	155,377
Total net assets	--	2,541,917	7,359,961	563,648
Total Liabilities and Net Assets	\$     --	\$  2,545,268	\$  7,362,195	\$   563,648

See Notes to Financial Statements.

Wild River Apartment Fund	Total
\$ --	\$ --
11,751	11,751
56,547	56,547
--	5,585
--	--
1,328	1,328
45,140	45,140
<u>114,766</u>	<u>120,351</u>
4,275,000	4,275,000
<u>4,275,000</u>	<u>4,275,000</u>
<u>4,389,766</u>	<u>4,395,351</u>
(1,579,082)	6,023,074
--	1,983,558
8,105	9,155
330,213	1,208,975
<u>(1,240,764)</u>	<u>9,224,762</u>
<u>\$ 3,149,002</u>	<u>\$ 13,620,113</u>

CITY OF SANDSTONE, MINNESOTA  
Proprietary Funds  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS**  
For the Year Ended December 31, 2012

	Business- Type Activities - Enterprise Funds			
	Golf Fund	Water Utility Fund	Sewer Utility Fund	Storm Water Fund
Operating revenues:				
Sales & charges for services	\$ --	\$ 203,510	\$ 361,599	\$ 36,895
Miscellaneous	2,988	4,733	723	--
Total operating revenues	<u>2,988</u>	<u>208,243</u>	<u>362,322</u>	<u>36,895</u>
Operating expenses:				
Maintenance and operations	36,068	108,528	97,746	2,658
Depreciation	--	88,126	203,506	20,804
Total Operating Expenses	<u>36,068</u>	<u>196,654</u>	<u>301,252</u>	<u>23,462</u>
Operating Income (Loss)	<u>(33,080)</u>	<u>11,589</u>	<u>61,070</u>	<u>13,433</u>
Nonoperating revenues (expenses):				
Interest earned	--	2,569	34,950	710
Sale of Assets/Property	86,651			
Interest expense	--	--	--	--
Total nonoperating revenues (expenses)	<u>86,651</u>	<u>2,569</u>	<u>34,950</u>	<u>710</u>
Net Income (Loss) Before Transfers and Contributions	53,571	14,158	96,020	14,143
Transfers in	185,724	--	--	--
Transfers out	<u>(6,247)</u>	<u>(45,000)</u>	<u>(134,662)</u>	<u>(8,400)</u>
Changes in net assets	233,048	(30,842)	(38,642)	5,743
Total net assets - beginning	<u>(233,048)</u>	<u>2,572,759</u>	<u>7,398,603</u>	<u>557,905</u>
Total net assets - ending	<u>\$ --</u>	<u>\$ 2,541,917</u>	<u>\$ 7,359,961</u>	<u>\$ 563,648</u>

See Notes to Financial Statements.

<u>Wild River Apartment Fund</u>	<u>Total</u>
\$ 619,591	\$ 1,221,595
--	8,444
<u>619,591</u>	<u>1,230,039</u>
297,153	542,153
123,087	435,523
<u>420,240</u>	<u>977,676</u>
<u>199,351</u>	<u>252,363</u>
--	38,229
--	86,651
<u>(175,866)</u>	<u>(175,866)</u>
<u>(175,866)</u>	<u>(50,986)</u>
23,485	201,377
91,636	277,360
--	(194,309)
<u>115,121</u>	<u>284,428</u>
<u>(1,355,885)</u>	<u>8,940,334</u>
<u>\$ (1,240,764)</u>	<u>\$ 9,224,762</u>

CITY OF SANDSTONE, MINNESOTA  
Proprietary Funds  
**STATEMENT OF CASH FLOWS**  
For the Year Ended December 31, 2012

	<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	\$ 3,080	\$ 211,311	\$ 412,552
Cash payments to suppliers	(30,887)	(113,765)	(95,173)
Cash payments to employees	--	--	--
Net Cash Provided (Used) by Operating Activities	<u>(27,807)</u>	<u>97,546</u>	<u>317,379</u>
<u>Cash Flows from Noncapital Financing Activities:</u>			
Transfers in	185,724	--	--
Transfers out	(6,247)	(45,000)	(134,662)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>179,477</u>	<u>(45,000)</u>	<u>(134,662)</u>
<u>Cash Flows from Capital and Related Financing Activities:</u>			
Interest & fiscal charges paid on capital debt	--	--	--
Principal paid on capital debt	--	--	--
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>--</u>	<u>--</u>	<u>--</u>
<u>Cash Flows from Investing Activities:</u>			
Sale of Assets/Property	131,399	--	--
Property adjustments	--	(17,151)	--
Purchased investments	--	--	(1,163,510)
Interest earned	--	2,569	34,950
Net Cash Provided (Used) by Investing Activities	<u>131,399</u>	<u>(14,582)</u>	<u>(1,128,560)</u>
Net Increase (Decrease) in Cash	283,069	37,964	(945,843)
Cash, January 1	<u>(283,069)</u>	<u>524,532</u>	<u>1,402,678</u>
Cash, December 31	<u>\$ --</u>	<u>\$ 562,496</u>	<u>\$ 456,835</u>

See Notes to Financial Statements.

Storm Water Fund	Wild River Apartment Fund	Total
\$ 38,766	\$ 731,335	\$ 1,397,044
(2,658)	(382,541)	(625,024)
--	--	--
<u>36,108</u>	<u>348,794</u>	<u>772,020</u>
--	91,636	277,360
<u>(8,400)</u>	--	<u>(194,309)</u>
<u>(8,400)</u>	<u>91,636</u>	<u>83,051</u>
--	(175,866)	(175,866)
<u>--</u>	<u>50,000</u>	<u>50,000</u>
<u>--</u>	<u>(125,866)</u>	<u>(125,866)</u>
--	--	131,399
(15,237)	(49,419)	(81,807)
--	--	(1,163,510)
710	--	38,229
<u>(14,527)</u>	<u>(49,419)</u>	<u>(1,075,689)</u>
13,181	265,145	(346,484)
<u>140,537</u>	<u>111,250</u>	<u>1,895,928</u>
<u>\$ 153,718</u>	<u>\$ 376,395</u>	<u>\$ 1,549,444</u>

CITY OF SANDSTONE, MINNESOTA  
Proprietary Funds  
**STATEMENT OF CASH FLOWS**  
For the Year Ended December 31, 2012

	<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)	\$ (33,080)	\$ 11,589	\$ 61,070
 <u>Adjustments to Reconcile Operating Income (Loss) to</u>			
<u>Net Cash Provided (Used) by Operating Activities:</u>			
Depreciation	--	88,126	203,506
<u>Changes in Assets and Liabilities:</u>			
(Increase) decrease in accounts receivable	92	(2,158)	50,953
(Increase) decrease in inventory	1,803	--	--
(Increase) decrease in special assessments	--	(261)	(174)
(Increase) decrease in prepaid expenses	3,378	(8)	(36)
Increase (decrease) in accounts payable	--	(3)	--
Increase (decrease) in deferred revenue	--	261	2,060
Increase (decrease) in security deposits	--	--	--
Increase (decrease) in interest payable	--	--	--
Total Adjustments	<u>5,273</u>	<u>85,957</u>	<u>256,309</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (27,807)</u>	<u>\$ 97,546</u>	<u>\$ 317,379</u>

See Notes to Financial Statements.

Storm Water Fund	Wild River Apartment Fund	Total
\$ 13,433	\$ 199,351	\$ 252,363
20,804	123,087	435,523
1,871	111,744	162,502
--	--	1,803
--	--	(435)
--	(335)	2,999
--	(2,469)	(2,472)
--	--	2,321
--	670	670
--	(83,234)	(83,234)
<u>22,675</u>	<u>149,463</u>	<u>519,677</u>
<u>\$ 36,108</u>	<u>\$ 348,814</u>	<u>\$ 772,040</u>

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CITY OF SANDSTONE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2012

CITY OF SANDSTONE, MINNESOTA  
**NOTES TO FINANCIAL STATEMENTS**

December 31, 2012

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, 2012

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, 2012

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 *MN Street Improvement 2007A* accounts for the resources accumulated and payments made for various improvement project.

The *EDA Fund* accounts for the resources accumulated and payments made for various EDA projects.

The City reports the following major proprietary funds:

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, 2012

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, 2012

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, 2012

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, 2012

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, 2012, are as follows:

	Bank Balance	Carrying Amount
Insured or collateralized by securities held by the City or its agent in the City's name	\$ 3,757,864	\$ 3,697,166
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	\$ 3,757,864	\$ 3,697,166

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

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, 2012

NOTE 2: CASH AND INVESTMENTS (Continued)

B. Investments (Continued)

Investment balances as of December 31, 2012, are as follows:

	Fair Value
Lakes States Federal Credit Union - CDs	\$ 22,505
Woodlands National Bank - CDs	500,000
Citigroup Smith Barney	1,036,011
Total	\$ 1,558,516

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

Cash and cash equivalents	\$ 2,868,750
Cash with fiscal agent	376,195
Investments	1,308,957
Restricted cash	767,571
Restricted investments	311,100
Total	\$ 5,632,573

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, 2012, 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, 2012

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, 2012, and descriptions are as follows:

	Restricted Cash	Prepaid Items
General fund	\$ 224,846	\$ 19,910
Special revenue funds	61,100	--
Capital projects	542,725	1,173
EDA fund	250,000	--
Enterprise funds	--	10,341
	\$ 1,078,671	\$ 31,424

NOTE 3: DUE FROM OTHER GOVERNMENTAL UNITS

There are no amounts due from other governmental units at December 31, 2012.

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, 2012 are as follows:

CITY OF SANDSTONE, MINNESOTA  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2012

NOTE 4: LONG-TERM DEBT (Continued)

<u>General Obligation Bonds:</u>	Interest Rates	Maturity	Balance 12/31/12	Due Within One Year
G.O. Refunding 2009 Series A	2.00-4.20%	2024	\$ 520,000	\$ 45,000
G.O. Refunding 2009 Series B	3.25%	2020	290,000	75,000
PFA G.O. Water Revenue Note	2.11%	2019	166,000	22,000
G.O. Wastewater Refunding of 01	3.00-4.35%	2012	--	--
G.O. Imp. Bond of 2007A	4.35%	2018	--	--
G.O. C of I Series 2007B	4.10%	2013	17,000	17,000
\$340,000 Lease Purchase	4.309-5.41%	2026	317,000	18,000
G.O. Refunding 2012 Series A	.5-2.6%	2023	405,000	30,000
Total General Obligation			\$ 1,715,000	\$ 207,000
 <u>Business-Type Activities:</u>				
EDA Refunding Bonds 2012	3-3.6%	2029	\$ 4,275,000	\$ 200,000
Total Business-Type Activities			\$ 4,275,000	\$ 200,000

The changes in the long-term debt of the City during 2012 are presented below:

<u>Governmental Activities</u>	Balance 12/31/11	New Issues	Debt Retired	Balance 12/31/12
G.O. Refunding 2009 Series A	\$ 570,000	\$ --	\$ 50,000	\$ 520,000
G.O. Refunding 2009 Series B	365,000	--	75,000	290,000
PFA G.O. Water Revenue Note	188,000	--	22,000	166,000
G.O. Wastewater Refunding Bond of 2001	120,000	--	120,000	--
G.O. Imp. Bond of 2007A	235,000	--	235,000	--
G.O. C of I Series 2007B	33,000	--	16,000	17,000
\$340,000 Lease Purchase	334,000	--	17,000	317,000
G.O. Refunding 2012 Series A	--	405,000	--	405,000
Total G.O. Debt	\$ 1,845,000	\$ 405,000	\$ 535,000	\$ 1,715,000
 <u>Business-Type Activities</u>				
EDA Refunding Bonds 2004	\$ 4,225,000	\$ --	\$ 4,225,000	\$ --
EDA Refunding Bonds 2012	--	4,275,000	--	4,275,000
	\$ 4,225,000	\$ 4,275,000	\$ 4,225,000	\$ 4,275,000

CITY OF SANDSTONE, MINNESOTA  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2012

NOTE 4: LONG-TERM DEBT (Continued)

The annual requirement to amortize all long-term debt outstanding as of December 31, 2012 including interest payments for the next five years, are summarized below:

Year Ending December 31	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2013	207,000	51,844	200,000	132,712
2014	211,000	43,950	205,000	126,638
2015	143,000	39,613	210,000	120,412
2016	139,000	36,112	215,000	114,038
2017	145,000	32,308	220,000	107,512
2018-2022	645,000	96,852	1,200,000	433,163
2023-2027	225,000	12,506	1,400,000	232,059
2028-2029	--	--	625,000	22,770
Total	<u>\$ 1,715,000</u>	<u>\$ 313,185</u>	<u>\$ 4,275,000</u>	<u>\$ 1,289,304</u>

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.

General Obligation Improvement and Refunding Bonds, Series 2012A were issued in 2012. The bond refunded \$315,000 GO Improvement Bonds Series 2007A and financed two city street reconstruction projects.

Economic Development Authority Housing and Development refunded the Gross Revenue Refunding Bonds Series 2004 A & B with \$4,275,000 Gross Revenue Refunding Bonds Series 2012 A & B. This created a gross present value debt service savings of \$456.063 by reduced bond yields.

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, 2012

NOTE 4: 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 GERS members hired prior to July 1, 1989 whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 65 for Basic and Coordinated members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for Coordinated members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

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

The benefit 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 GERS. The report may be accessed at the PERA web site, [www.mn.pera.org](http://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, 2012

NOTE 4: 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. GERS Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.25%, respectively, of their annual covered salary in 2012. The City is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan GERS members and 7.25% for Coordinated Plan GERS members. The City's contributions to the General Employees Retirement Fund for the years ending December 31, 2012, 2011, and 2010, were \$19,883, \$20,402, and \$19,606, respectively. The City's contributions were equal to contractually required contributions for each year as set by state statute.

NOTE 5: 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	\$ 2,988	\$ 208,243	\$ 362,322	\$ 36,895	\$ 619,591
Expenses:					
Depreciation	\$ --	\$ 88,126	\$ 203,506	\$ 20,804	\$ 123,087
Other	36,068	108,528	97,746	2,658	297,153
Total expenses	<u>\$ 36,068</u>	<u>\$ 196,654</u>	<u>\$ 301,252</u>	<u>\$ 23,462</u>	<u>\$ 420,240</u>
Nonoperating revenues (expenses)	<u>\$ 86,651</u>	<u>\$ 2,569</u>	<u>\$ 34,950</u>	<u>\$ 710</u>	<u>\$ (175,866)</u>
Net income (loss)	<u>\$ 53,571</u>	<u>\$ 14,158</u>	<u>\$ 96,020</u>	<u>\$ 14,143</u>	<u>\$ 23,485</u>
Total assets	<u>\$ --</u>	<u>\$ 2,545,268</u>	<u>\$ 7,362,195</u>	<u>\$ 563,648</u>	<u>\$ 3,149,002</u>
Fund equity	<u>\$ --</u>	<u>\$ 2,541,917</u>	<u>\$ 7,359,961</u>	<u>\$ 563,648</u>	<u>\$(1,240,764)</u>
Capital expenditures - net	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 49,419</u>

CITY OF SANDSTONE, MINNESOTA  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2012

NOTE 6: DEFICIT FUND BALANCES

There was one fund with a deficit fund balance at the individual fund level at December 31, 2012.

Enterprise - Wild River Apartments	<u><u>\$(1,240,764)</u></u>
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NOTE 7: APPROPRIATIONS/EXPENDITURES OVER REVENUES

Expenditures exceeded revenues in certain individual funds For the Year Ended December 31, 2012, as follows:

	<u>Expenditures</u>	<u>Revenues</u>	<u>Difference</u>
Capital - Tax Abatement	\$ 4,964	\$ 4,850	\$ 114
EDA Special Revenue	16,274	10,854	5,420
EDA Wild River Repair & Replacement	35,146	15,824	19,322
EDA CED Loan Fund	4,344	2,877	1,467
Debt Service - 1999 PFA Water GO	25,967	--	25,967
Debt Service - \$655,000 GO Refunding 2009A	70,036	57,479	12,557
Debt Service - \$430,000 GO Improvement 2009B	85,644	60,079	25,565
Debt Service - \$1,500M Wastewater Revenue	127,361	--	127,361
Debt Service - \$77,000 GO Equipment Certificates 2007B	23,273	13,700	9,573
Debt Service - \$340,000 Lease Purchase	31,025	32	30,993
Debt Service - GO Improvement 2007A	243,472	22,924	220,548
Capital Project Fund	205,225	142,031	63,194

Note 8: 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 9: 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	\$ 938,874	\$ 869,700	\$ 69,174
EDA CED Loan Fund	4,344	--	4,344
EDA Capital Expenditure	35,146	14,900	20,246
\$315K G.O. Improvement Bonds, Series 2007A	243,472	35,361	208,111
\$77K G.O. Equipment Certificate4s, Series 2007B	23,273	17,050	6,223
\$1.5MM Wastewater Revenue	127,361	123,100	4,261
\$655,000 G.O. Refunding Bonds, Series 2009A	70,036	69,250	786
Capital Projects	205,225	181,900	23,325
Tax Abatement	4,964	4,900	64

CITY OF SANDSTONE, MINNESOTA  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2012

NOTE 10: INTERFUND RECEIVABLES AND PAYABLES

The amounts due to and due from other funds at December 31, 2012, at the individual fund level are summarized below:

Funds	Due From Other Funds	Due To Other Funds
Capital Projects:		
Capital Projects	--	226,381
Enterprise Fund:		
Sewer	476,381	--
Special Revenue:		
EDA CED Loan	96,100	--
EDA	--	346,100
Totals	\$ 572,481	\$ 572,481

NOTE 11: 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, 2012

NOTE 12: CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2012, are as follows:

<u>Governmental Activities</u>	<u>Beginning Balances</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balances</u>
Capital Assets:				
Land	\$ 624,403	\$ --	\$ --	\$ 624,403
Infrastructure	7,330,315	20,144	--	7,350,459
Buildings and improvements	1,825,174	8,191	--	1,833,365
Equipment	775,321	18,972	39,146	755,147
Total Capital Assets	<u>10,555,213</u>	<u>47,307</u>	<u>39,146</u>	<u>10,563,374</u>
Less: Accumulated Depreciation for:				
Infrastructure	4,318,456	193,413	--	4,511,869
Buildings and improvements	973,737	47,198	--	1,020,935
Equipment	570,637	47,074	23,941	593,770
Total Accumulated Depreciation	<u>5,862,830</u>	<u>287,685</u>	<u>23,941</u>	<u>6,126,574</u>
Total Capital Assets, Net of Depreciation	<u>\$ 4,692,383</u>	<u>\$ (240,378)</u>	<u>\$ 15,205</u>	<u>\$ 4,436,800</u>
<u>Business - Type Activities</u>				
Capital Assets:				
Land	\$ 164,539	\$ --	\$ 7,524	\$ 157,015
Buildings and improvements	20,080,455	7,771	170,566	19,917,660
Equipment	135,390	--	90,246	45,144
Total Capital Assets	<u>20,380,384</u>	<u>7,771</u>	<u>268,336</u>	<u>20,119,819</u>
Less: Accumulated Depreciation for:				
Buildings and improvements	9,301,256	431,717	--	9,732,973
Equipment	427,282	3,806	398,863	32,225
Total Accumulated Depreciation	<u>9,728,538</u>	<u>435,523</u>	<u>398,863</u>	<u>9,765,198</u>
Business - Type Capital Assets, Net	<u>\$ 10,651,846</u>	<u>\$ (427,752)</u>	<u>\$ (130,527)</u>	<u>\$ 10,354,621</u>

CITY OF SANDSTONE, MINNESOTA  
**NOTES TO FINANCIAL STATEMENTS**  
 December 31, 2012

NOTE 12: CAPITAL ASSETS (Continued)

Depreciation expense was charged to function/programs as follows:

Governmental Activities	
General government	\$ 208,243
Public safety	32,828
Public works	34,529
Culture and recreation	8,495
Unallocated	3,590
Total Depreciation Expense - Governmental Activities	\$ 287,685
Business - Type Activities	
Water utility	88,126
Sewer utility	203,506
Storm Water	20,804
Wild River Apartments	123,087
Total Depreciation Expense - Business - Type Activities	\$ 435,523

NOTE 13: 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  
COMBINING AND INDIVIDUAL FUND  
STATEMENTS AND SCHEDULES  
December 31, 2012

CITY OF SANDSTONE, MINNESOTA  
 Nonmajor Governmental Funds  
**COMBINING BALANCE SHEET**  
 December 31, 2012

	Special Revenue Funds			
	EDA CED Loan	Cemetery Permanent Care	EDA Wild River Capital Expense	EDA Wild River Reserve
<b>ASSETS</b>				
Cash & cash equivalents	\$ 189,249	\$ 86,167	\$ 77,395	\$ 39,815
Investments	--	22,505	--	--
Accounts receivable	35,069	--	--	--
Delinquent property tax	--	--	--	16,078
Special assessment	--	--	--	--
Special assessment deferred	--	--	--	--
Due from other funds	96,100	--	--	--
Bond Discount	--	--	--	--
Restricted cash	61,100	--	--	--
Total assets	\$ 381,518	\$ 108,672	\$ 77,395	\$ 55,893
 <b>LIABILITIES AND FUND BALANCE</b>				
<u>Liabilities:</u>				
Cash in bank (overdraft)	\$ --	\$ --	\$ --	\$ --
Accounts payable	--	--	--	--
Due to other funds	--	--	--	--
Deferred revenue	--	--	--	16,078
Total liabilities	--	--	--	16,078
 <u>Fund Balance:</u>				
Reserved	381,518	108,672	77,395	39,815
Total fund balance	381,518	108,672	77,395	39,815
Total liabilities and fund balance	\$ 381,518	\$ 108,672	\$ 77,395	\$ 55,893

Debt Service Funds				
Special Revenue Total	1999 PFA Water G.O.	\$655,000 G.O. Refunding Bond, 2009A	\$430,000 G.O. Improvement Bond, 2009B	
\$ 392,626	\$ 2,685	\$ 66,796	\$ 94,939	
22,505	--	--	--	
35,069	--	--	--	
16,078	--	6,142	4,909	
--	--	--	4,111	
--	--	114	36,944	
96,100	--	--	--	
--	--	1,698	--	
61,100	--	--	--	
<u>623,478</u>	<u>\$ 2,685</u>	<u>\$ 74,750</u>	<u>\$ 140,903</u>	
\$ --	\$ --	\$ --	\$ --	
--	--	--	--	
--	--	--	--	
16,078	--	6,256	45,964	
<u>16,078</u>	<u>--</u>	<u>6,256</u>	<u>45,964</u>	
--	--	--	--	
--	--	--	--	
607,400	2,685	68,494	94,939	
<u>607,400</u>	<u>2,685</u>	<u>68,494</u>	<u>94,939</u>	
--	--	--	--	
<u>\$ 623,478</u>	<u>\$ 2,685</u>	<u>\$ 74,750</u>	<u>\$ 140,903</u>	

CITY OF SANDSTONE, MINNESOTA  
 Nonmajor Governmental Funds  
**COMBINING BALANCE SHEET**  
 December 31, 2012

	Debt Service Funds			
	\$1,500,000 Wastewater Revenue	2007B Equip C of I	\$405,000 2012A G.O. Improvement & Refunding	\$340,000 Lease Purchase Public Works
<b>ASSETS</b>				
Cash & cash equivalents	\$ --	\$ 116	\$ 72,454	\$ 86
Investments	--	--	--	--
Accounts receivable	--	--	--	--
Delinquent property tax	--	1,833	2,862	--
Special assessment	--	--	--	--
Special assessment deferred	--	--	56,250	--
Due from other funds	--	--	--	--
Bond discount	--	--	--	--
Restricted cash	--	--	--	--
Total Assets	<u>\$ --</u>	<u>\$ 1,949</u>	<u>\$ 131,566</u>	<u>\$ 86</u>
<b>LIABILITIES AND FUND BALANCE</b>				
<u>Liabilities:</u>				
Cash in bank overdraft	\$ --	\$ --	\$ --	\$ --
Accounts Payable	--	--	--	--
Due to other funds	--	--	--	--
Deferred revenue	--	1,833	59,112	--
Total Liabilities	<u>--</u>	<u>1,833</u>	<u>59,112</u>	<u>--</u>
<u>Fund Balance:</u>				
Reserved	--	116	72,454	86
Total Fund Balance	<u>--</u>	<u>116</u>	<u>72,454</u>	<u>86</u>
Total Liabilities and Fund Balance	<u>\$ --</u>	<u>\$ 1,949</u>	<u>\$ 131,566</u>	<u>\$ 86</u>

Capital Projects Fund				
Debt Service Total	Tax Abatement	Tax Increment Financing	Capital Projects Total	Total Nonmajor Governmental Funds
\$ 237,076	\$ 41	\$ --	\$ 41	\$ 629,743
--	--	--	--	22,505
--	333	--	333	35,402
15,746	--	--	--	31,824
4,111	--	--	--	4,111
93,308	--	--	--	93,308
--	--	--	--	96,100
1,698	--	--	--	1,698
--	--	--	--	61,100
<u>351,939</u>	<u>\$ 374</u>	<u>\$ --</u>	<u>\$ 374</u>	<u>\$ 975,791</u>
\$ --	\$ --	\$ --	\$ --	\$ --
--	--	--	--	--
--	--	--	--	--
113,165	333	--	333	129,576
<u>113,165</u>	<u>333</u>	<u>--</u>	<u>333</u>	<u>129,576</u>
238,774	41	--	41	846,215
<u>238,774</u>	<u>41</u>	<u>--</u>	<u>41</u>	<u>846,215</u>
--	--	--	--	--
<u>\$ 351,939</u>	<u>\$ 374</u>	<u>\$ --</u>	<u>\$ 374</u>	<u>\$ 975,791</u>

CITY OF SANDSTONE, MINNESOTA  
 Nonmajor Governmental Funds  
**Combined Statement of Revenues, Expenditures and Changes in Fund Balance**  
 For the Year Ended December 31, 2012

	Special Revenue Funds			
	EDA CED Loan	Cemetery Permanent Care	EDA Wild River Capital Expense	EDA Wild River Reserve
<b>REVENUES</b>				
Property tax	\$ --	\$ --	\$ --	\$ 153,693
Tax increment	--	--	--	--
Interest	2,877	847	224	--
Special assessments	--	--	--	--
Miscellaneous	--	1,400	15,600	5,478
Total Revenues	<u>2,877</u>	<u>2,247</u>	<u>15,824</u>	<u>159,171</u>
<b>EXPENDITURES</b>				
Contractual services	4,344	--	--	--
Bond principal	--	--	--	--
Interest	--	--	--	--
Capital outlay	--	--	35,146	--
Miscellaneous	--	--	--	--
Total Expenditures	<u>4,344</u>	<u>--</u>	<u>35,146</u>	<u>--</u>
Excess (deficiency) of revenue over (under) expenditures	<u>(1,467)</u>	<u>2,247</u>	<u>(19,322)</u>	<u>159,171</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Bond proceeds	--	--	--	--
Transfer in	--	--	--	--
Transfer out	--	--	--	(76,886)
Total Other Financing Source (uses)	<u>--</u>	<u>--</u>	<u>--</u>	<u>(76,886)</u>
Net change in fund balances	(1,467)	2,247	(19,322)	82,285
Fund Balances - beginning	<u>382,985</u>	<u>106,425</u>	<u>96,717</u>	<u>(42,470)</u>
Fund Balances - ending	<u>\$ 381,518</u>	<u>\$ 108,672</u>	<u>\$ 77,395</u>	<u>\$ 39,815</u>

Debt Service Funds				
Special Revenue Total	1999 PFA Water G.O.	\$655,000 G.O. Refunding Bond, 2009A	\$430,000 G.O. Improvement Bond, 2009B	
\$ 153,693	\$ --	\$ 57,391	\$ 45,963	
--	--	--	--	
3,948	--	88	175	
--	--	--	13,941	
22,478	--	--	--	
<u>180,119</u>	<u>--</u>	<u>57,479</u>	<u>60,079</u>	
--				
--				
4,344	--	--	--	
--	22,000	50,000	75,000	
--	3,967	19,118	10,644	
35,146	--	--	--	
--	--	918	--	
<u>39,490</u>	<u>25,967</u>	<u>70,036</u>	<u>85,644</u>	
--				
--				
140,629	(25,967)	(12,557)	(25,565)	
--				
--				
--	--	--	--	
--	26,000	12,000	25,000	
(76,886)	--	--	--	
<u>(76,886)</u>	<u>26,000</u>	<u>12,000</u>	<u>25,000</u>	
--				
63,743	33	(557)	(565)	
--				
543,657	2,652	69,051	95,504	
--				
<u>\$ 607,400</u>	<u>\$ 2,685</u>	<u>\$ 68,494</u>	<u>\$ 94,939</u>	

CITY OF SANDSTONE, MINNESOTA  
Nonmajor Governmental Funds  
**Combined Statement of Revenues, Expenditures and Changes in Fund Balance**  
For the Year Ended December 31, 2012

	Debt Service Funds			
	\$1,500,000 Wastewater Revenue Fund	2007B Equip C of I	\$405,000 2012A G.O. Improvement & Refunding	\$340,000 Lease Purchase Public Works
<b>REVENUES</b>				
Property taxes	\$ --	\$ 13,700	\$ 11,653	\$ --
Tax increment	--	--	--	--
Interest	--	--	106	32
Special assessments	--	--	21,761	--
Miscellaneous	--	--	--	--
<b>Total Revenues</b>	<b>--</b>	<b>13,700</b>	<b>33,520</b>	<b>32</b>
<b>EXPENDITURES</b>				
Contractual services	--	--	--	--
Bond principal	120,000	22,248	--	17,000
Interest	2,610	1,025	--	14,025
Capital outlay	--	--	--	--
Miscellaneous	4,751	--	--	--
<b>Total Expenditures</b>	<b>127,361</b>	<b>23,273</b>	<b>--</b>	<b>31,025</b>
Excess (deficiency) of revenues over (under) expenditures	(127,361)	(9,573)	33,520	(30,993)
<b>OTHER FINANCING SOURCES (USES)</b>				
Bond proceeds	--	--	68	--
Transfer in	119,602	6,248	38,866	31,050
Transfer out	--	--	--	--
<b>Total Other Financing Sources (uses)</b>	<b>119,602</b>	<b>6,248</b>	<b>38,934</b>	<b>31,050</b>
Net change in fund balances	(7,759)	(3,325)	72,454	57
Fund balance - beginning	7,759	3,441	--	29
Fund balances - ending	\$ --	\$ 116	\$ 72,454	\$ 86

Debt Service Total	Capital Projects			Total Nonmajor Governmental Funds
	Tax Abatement	Tax Increment Financing	Capital Projects Total	
\$ 128,707	\$ 3,099	\$ --	\$ 3,099	\$ 285,499
--	--	--	--	--
401	--	--	--	4,349
35,702	--	--	--	35,702
--	1,751	--	1,751	24,229
<u>164,810</u>	<u>4,850</u>	<u>--</u>	<u>4,850</u>	<u>349,779</u>
--	--	--	--	--
--	4,468	--	4,468	8,812
306,248	--	--	--	306,248
51,389	--	--	--	51,389
--	--	(27,945)	(27,945)	7,201
5,669	496	--	496	6,165
<u>363,306</u>	<u>4,964</u>	<u>(27,945)</u>	<u>(22,981)</u>	<u>379,815</u>
--	--	--	--	--
<u>(198,496)</u>	<u>(114)</u>	<u>27,945</u>	<u>27,831</u>	<u>(30,036)</u>
68	--	--	--	68
258,766	--	--	--	258,766
--	--	--	--	(76,886)
<u>258,834</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>181,948</u>
--	--	--	--	--
60,338	(114)	27,945	27,831	151,912
--	--	--	--	--
<u>178,436</u>	<u>155</u>	<u>(27,945)</u>	<u>(27,790)</u>	<u>694,303</u>
--	--	--	--	--
<u>\$ 238,774</u>	<u>\$ 41</u>	<u>\$ --</u>	<u>\$ 41</u>	<u>\$ 846,215</u>

## EDA Special Revenue Fund

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

For the Year Ended December 31, 2012

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>			
Property taxes	\$ 10,750	\$ 10,429	\$ (321)
Interest earned	450	425	(25)
Miscellaneous	--	--	--
Total Revenues	<u>11,200</u>	<u>10,854</u>	<u>(346)</u>
<b>EXPENDITURES</b>			
Contractual services	2,000	120	(1,880)
Miscellaneous	--	650	650
Property acquisition	15,600	15,504	(96)
Total Expenditures	<u>17,600</u>	<u>16,274</u>	<u>(1,326)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(6,400)</u>	<u>(5,420)</u>	<u>980</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	--	--	--
Total other financing sources (uses)	<u>--</u>	<u>--</u>	<u>--</u>
Net change in fund balances	(6,400)	(5,420)	980
Fund Balance - beginning	<u>29,652</u>	<u>29,652</u>	<u>--</u>
Fund Balance - ending	<u>\$ 23,252</u>	<u>\$ 24,232</u>	<u>\$ 980</u>

## MN Street Improvement 2007A

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

For the Year Ended December 31, 2012

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>			
Property taxes	\$ 26,700	\$ 15,040	\$ (11,660)
Special assessments	9,000	7,820	(1,180)
Interest	--	64	64
Total Revenues	<u>35,700</u>	<u>22,924</u>	<u>(12,776)</u>
<b>EXPENDITURES</b>			
Bond principal	30,000	235,000	205,000
Interest	5,111	6,597	1,486
Agent fees	250	1,875	1,625
Total Expenditures	<u>35,361</u>	<u>243,472</u>	<u>208,111</u>
Excess (deficiency) of revenues over (under) expenditures	339	(220,548)	(220,887)
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfer	--	(33,466)	(33,466)
Bond proceeds	123,000	184,490	61,490
Total other financing sources (uses)	<u>123,000</u>	<u>151,024</u>	<u>28,024</u>
Net change in fund balances	123,339	(69,524)	(192,863)
Fund Balance - beginning	<u>69,524</u>	<u>69,524</u>	<u>--</u>
Fund Balance - ending	<u>\$ 192,863</u>	<u>\$ --</u>	<u>\$ (192,863)</u>

## Capital Projects Fund

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

For the Year Ended December 31, 2012

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>			
Property taxes	\$ 143,600	\$ 138,354	\$ (5,246)
Interest	1,900	1,942	42
Miscellaneous	--	1,735	1,735
Total Revenues	<u>145,500</u>	<u>142,031</u>	<u>(3,469)</u>
<b>EXPENDITURES</b>			
Capital expenditures	<u>181,900</u>	<u>205,225</u>	<u>23,325</u>
Total Expenditures	<u>181,900</u>	<u>205,225</u>	<u>23,325</u>
Excess (deficiency) of revenues (over (under) expenditures)	<u>(36,400)</u>	<u>(63,194)</u>	<u>(26,794)</u>
<b>OTHER FINANCING RESOURCES (USES)</b>			
Transfer in	122,365	123,613	1,248
Bond proceeds	--	212,342	212,342
Total other financing sources (uses)	<u>122,365</u>	<u>335,955</u>	<u>213,590</u>
Net change in fund balances	85,965	272,761	186,796
Fund balances - beginning	<u>45,197</u>	<u>45,197</u>	<u>--</u>
Fund balances - ending	<u>\$ 131,162</u>	<u>\$ 317,958</u>	<u>\$ 186,796</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, 2012

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>			
Interest earned	\$ 2,800	\$ 2,877	\$ 77
Total Revenues	<u>2,800</u>	<u>2,877</u>	<u>77</u>
<b>EXPENDITURES</b>			
Contract Services	--	4,344	4,344
Total Expenditures	<u>--</u>	<u>4,344</u>	<u>4,344</u>
Excess (deficiency) of revenues over (under) expenditures	<u>2,800</u>	<u>(1,467)</u>	<u>(4,267)</u>
Net change in fund balances	2,800	(1,467)	(4,267)
Fund Balance - beginning	<u>382,985</u>	<u>382,985</u>	<u>--</u>
Fund Balance - ending	<u><u>\$ 385,785</u></u>	<u><u>\$ 381,518</u></u>	<u><u>\$ (4,267)</u></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, 2012

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>			
Interest earned	\$ 600	\$ 847	\$ 247
Miscellaneous	2,500	1,400	(1,100)
Total Revenues	<u>3,100</u>	<u>2,247</u>	<u>(853)</u>
<b>EXPENDITURES</b>			
Expenditures	<u>--</u>	<u>--</u>	<u>--</u>
Total Expenditures	<u>--</u>	<u>--</u>	<u>--</u>
Excess (deficiency) of revenues over (under) expenditures	3,100	2,247	(853)
Fund Balance - beginning	<u>106,425</u>	<u>106,425</u>	<u>--</u>
Fund Balance - ending	<u>\$ 109,525</u>	<u>\$ 108,672</u>	<u>\$ (853)</u>

CITY OF SANDSTONE, MINNESOTA  
 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, 2012

Schedule 8

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>			
Interest earned	\$ --	\$ 224	\$ 224
Miscellaneous	--	15,600	15,600
Total Revenues	<u>--</u>	<u>15,824</u>	<u>15,824</u>
<b>EXPENDITURES</b>			
Miscellaneous	<u>14,900</u>	<u>35,146</u>	<u>20,246</u>
Total Expenditures	<u>14,900</u>	<u>35,146</u>	<u>20,246</u>
Excess (deficiency) of revenues over (under) expenditures	(14,900)	(19,322)	(4,422)
Fund Balance - beginning	<u>96,717</u>	<u>96,717</u>	<u>--</u>
Fund Balance - ending	<u>\$ 81,817</u>	<u>\$ 77,395</u>	<u>\$ (4,422)</u>

## EDA Wild River Reserve Fund

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

For the Year Ended December 31, 2012

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>			
Property tax	\$ 150,000	\$ 153,693	\$ 3,693
Miscellaneous	--	5,478	5,478
Total Revenues	<u>150,000</u>	<u>159,171</u>	<u>9,171</u>
<b>EXPENDITURES</b>			
Expenditures	--	--	--
Total Expenditures	<u>--</u>	<u>--</u>	<u>--</u>
Excess (deficiency) of revenues over (under) expenditures	<u>150,000</u>	<u>159,171</u>	<u>9,171</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers (out)	<u>(150,000)</u>	<u>(76,886)</u>	<u>73,114</u>
Total other financing sources (uses)	<u>(150,000)</u>	<u>(76,886)</u>	<u>73,114</u>
Net change in fund balances	--	82,285	82,285
Fund Balance - beginning	<u>(42,470)</u>	<u>(42,470)</u>	<u>--</u>
Fund Balance - ending	<u>\$ (42,470)</u>	<u>\$ 39,815</u>	<u>\$ 82,285</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, 2012

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>			
Property taxes	\$ 57,300	\$ 57,391	\$ 91
Interest		88	88
Total Revenues	<u>57,300</u>	<u>57,479</u>	<u>179</u>
<b>EXPENDITURES</b>			
Bond principal	50,000	50,000	--
Interest	19,250	19,118	(132)
Fiscal agent fees	--	918	918
Total Expenditures	<u>69,250</u>	<u>70,036</u>	<u>786</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(11,950)</u>	<u>(12,557)</u>	<u>(607)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
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	50	(557)	(607)
Fund Balance - beginning	<u>69,051</u>	<u>69,051</u>	<u>--</u>
Fund Balance - ending	<u>\$ 69,101</u>	<u>\$ 68,494</u>	<u>\$ (607)</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, 2012

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>			
Property tax	\$ 45,800	\$ 45,963	\$ 163
Special Assessments	18,650	13,941	(4,709)
Interest	350	175	(175)
Total Revenues	<u>64,800</u>	<u>60,079</u>	<u>(4,721)</u>
<b>EXPENDITURES</b>			
Bond principle	75,000	75,000	--
Interest	10,650	10,644	(6)
Fiscal agent fees	--	--	--
Total Expenditures	<u>85,650</u>	<u>85,644</u>	<u>(6)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(20,850)</u>	<u>(25,565)</u>	<u>(4,715)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfer in	25,000	25,000	--
Total other financing sources (uses)	<u>25,000</u>	<u>25,000</u>	<u>--</u>
Net change in fund balances	4,150	(565)	(4,715)
Fund Balance - beginning	<u>95,504</u>	<u>95,504</u>	<u>--</u>
Fund Balance - ending	<u>\$ 99,654</u>	<u>\$ 94,939</u>	<u>\$ (4,715)</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, 2012

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>			
Interest	\$ --	\$ --	\$ --
Total Revenues	--	--	--
<b>EXPENDITURES</b>			
Bond principal	120,000	120,000	--
Interest	2,650	2,610	(40)
Agent fees	450	4,751	4,301
Total Expenditures	123,100	127,361	4,261
Excess (deficiency) of revenues over (under) expenditures	(123,100)	(127,361)	(4,261)
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	123,000	119,602	(3,398)
Total other financing sources (uses)	123,000	119,602	(3,398)
Net change in fund balances	(100)	(7,759)	(7,659)
Fund Balance - beginning	7,759	7,759	--
Fund Balance - ending	\$ 7,659	\$ --	\$ (7,659)

## \$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, 2012

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>			
Property taxes	\$ 17,100	\$ 13,700	\$ (3,400)
Interest	--	--	--
Total Revenues	<u>17,100</u>	<u>13,700</u>	<u>(3,400)</u>
<b>EXPENDITURES</b>			
Bond principal	16,000	22,248	6,248
Interest	<u>1,050</u>	<u>1,025</u>	<u>(25)</u>
Total Expenditures	<u>17,050</u>	<u>23,273</u>	<u>6,223</u>
Excess (deficiency) of revenues over (under) expenditures	50	(9,573)	(9,623)
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	<u>123,000</u>	<u>6,248</u>	<u>(116,752)</u>
Total other financing sources (uses)	<u>123,000</u>	<u>6,248</u>	<u>(116,752)</u>
Net change in fund balances	123,050	(3,325)	(126,375)
Fund Balance - beginning	<u>3,441</u>	<u>3,441</u>	<u>--</u>
Fund Balance - ending	<u>\$ 126,491</u>	<u>\$ 116</u>	<u>\$ (126,375)</u>

## \$405,000 General Obligation Improvement &amp; Refunding Bond, Series 2012A

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

For the Year Ended December 31, 2012

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>			
Property taxes	\$ --	\$ 11,653	\$ 11,653
Special assessments	--	21,761	21,761
Interest	--	106	106
Total Revenues	<u>--</u>	<u>33,520</u>	<u>33,520</u>
<b>EXPENDITURES</b>			
Bond principal	--	--	--
Interest	--	--	--
Agent fees	--	--	--
Total Expenditures	<u>--</u>	<u>--</u>	<u>--</u>
Excess (deficiency) of revenues over (under) expenditures	--	33,520	33,520
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfer	5,400	38,866	33,466
Bond proceeds	--	68	68
Total other financing sources (uses)	<u>5,400</u>	<u>38,934</u>	<u>33,534</u>
Net change in fund balances	5,400	72,454	67,054
Fund Balance - beginning	<u>--</u>	<u>--</u>	<u>--</u>
Fund Balance - ending	<u>\$ 5,400</u>	<u>\$ 72,454</u>	<u>\$ 67,054</u>

CITY OF SANDSTONE, MINNESOTA  
1999 PFA Water G.O. Bond Debt Service Fund

Schedule 15

**Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual**  
For the Year Ended December 31, 2012

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>			
Interest	\$ --	\$ --	\$ --
Total Revenues	<u>--</u>	<u>--</u>	<u>--</u>
<b>EXPENDITURES</b>			
Bond principal	21,000	22,000	1,000
Interest	<u>5,000</u>	<u>3,967</u>	<u>(1,033)</u>
Total Expenditures	<u>26,000</u>	<u>25,967</u>	<u>(33)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(26,000)</u>	<u>(25,967)</u>	<u>33</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	<u>26,000</u>	<u>26,000</u>	<u>--</u>
Total other financing sources (uses)	<u>26,000</u>	<u>26,000</u>	<u>--</u>
Net change in fund balances	--	33	33
Fund Balance - beginning	<u>2,652</u>	<u>2,652</u>	<u>--</u>
Fund Balance - ending	<u>\$ 2,652</u>	<u>\$ 2,685</u>	<u>\$ 33</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, 2012

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>			
Interest	\$ --	\$ 32	\$ (32)
Total Revenues	<u>--</u>	<u>32</u>	<u>(32)</u>
<b>EXPENDITURES</b>			
Bond principal	17,000	17,000	--
Interest	14,025	14,025	--
Total Expenditures	<u>31,025</u>	<u>31,025</u>	<u>--</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(31,025)</u>	<u>(30,993)</u>	<u>(32)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	31,050	31,050	--
Total other financing sources (uses)	<u>31,050</u>	<u>31,050</u>	<u>--</u>
Net change in fund balances	25	57	(32)
Fund Balance - beginning	<u>29</u>	<u>29</u>	<u>--</u>
Fund Balance - ending	<u>\$ 54</u>	<u>\$ 86</u>	<u>\$ (32)</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, 2012

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>			
Tax abatement	\$ 3,100	\$ 3,099	\$ (1)
Miscellaneous	1,900	1,751	(149)
Total Revenues	5,000	4,850	(150)
<b>EXPENDITURES</b>			
Contractual Services	4,410	4,468	58
Administrative Fees	490	496	6
Total Expenditures	4,900	4,964	64
Excess (deficiency) of revenues over (under) expenditures	100	(114)	(214)
Fund Balance - beginning	155	155	--
Fund Balance - ending	\$ 255	\$ 41	\$ (214)

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, 2012

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>			
Tax Increments	\$ --	\$ --	\$ --
Interest	--	--	--
Total Revenues	<u>--</u>	<u>--</u>	<u>--</u>
<b>EXPENDITURES</b>			
Capital Outlay	--	(27,945)	(27,945)
Miscellaneous	--	--	--
Total Expenditures	<u>--</u>	<u>(27,945)</u>	<u>(27,945)</u>
Excess (deficiency) of revenues over (under) expenditures	--	27,945	27,945
Fund Balance - beginning	<u>(27,945)</u>	<u>(27,945)</u>	<u>--</u>
Fund Balance - ending	<u>\$ (27,945)</u>	<u>\$ --</u>	<u>\$ 27,945</u>

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CITY OF SANDSTONE, MINNESOTA  
SUPPLEMENTARY FINANCIAL INFORMATION  
December 31, 2012

CITY OF SANDSTONE, MINNESOTA  
 \$655,000 General Obligation Refunding Bonds, Series 2009A  
**STATEMENT OF BOND AND INTEREST MATURITIES**  
 December 31, 2012

Schedule 19

<u>Maturity</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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>\$ 520,000.00</u>	<u>\$ 124,316.25</u>	<u>\$ 644,316.25</u>

CITY OF SANDSTONE, MINNESOTA  
 \$430,000 General Obligation Improvement Bonds, Series 2009B  
**STATEMENT OF BOND AND INTEREST MATURITIES**  
 December 31, 2012

Schedule 20

<u>Maturity</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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>\$ 290,000.00</u>	<u>\$ 28,275.00</u>	<u>\$ 318,275.00</u>

CITY OF SANDSTONE, MINNESOTA  
 \$405,000 General Obligation Improvement & Refunding Bond, Series 2012A  
**STATEMENT OF BOND AND INTEREST MATURITIES**  
 December 31, 2012

Schedule 21

<u>Maturity</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2/1/2013	50.00%	30,000.00	5,486.63	35,486.63
8/1/2013			2,963.75	2,963.75
2/1/2014	75.00%	45,000.00	2,963.75	47,963.75
8/1/2014			2,795.00	2,795.00
2/1/2015	90.00%	45,000.00	2,795.00	47,795.00
8/1/2015			2,592.50	2,592.50
2/1/2016	1.10%	40,000.00	2,592.50	42,592.50
8/1/2016			2,372.50	2,372.50
2/1/2017	1.30%	35,000.00	2,372.50	37,372.50
8/1/2017			2,145.00	2,145.00
2/1/2018	1.50%	45,000.00	2,145.00	47,145.00
8/1/2018			1,807.50	1,807.50
2/1/2019	1.70%	30,000.00	1,807.50	31,807.50
8/1/2019			1,552.50	1,552.50
2/1/2020	1.95%	30,000.00	1,552.50	31,552.50
8/1/2020			1,260.00	1,260.00
2/1/2021	2.30%	35,000.00	1,260.00	36,260.00
8/1/2021			857.50	857.50
2/1/2022	2.30%	35,000.00	857.50	35,857.50
8/1/2022			455.00	455.00
2/1/2023	2.60%	35,000.00	455.00	35,455.00
	Totals	\$ 405,000.00	\$ 43,089.13	\$ 448,089.13

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

Schedule 22

**STATEMENT OF BOND AND INTEREST MATURITIES**

December 31, 2012

<u>Maturity</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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>\$ 166,000.00</u>	<u>\$ 14,305.80</u>	<u>\$ 180,305.80</u>

CITY OF SANDSTONE, MINNESOTA  
 \$4,275,000 Economic Development Authority Housing and Development  
 Gross Revenue Refunding Bonds Series 2012 A & B

Schedule 23

**STATEMENT OF BOND AND INTEREST MATURITIES**  
 December 31, 2012

<u>Maturity</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2/1/2013	4.785%	200,000.00	67,856.25	267,856.25
8/1/2013	4.785%	--	64,856.25	64,856.25
2/1/2014	4.785%	205,000.00	64,856.25	269,856.25
8/1/2014	4.785%	--	61,781.25	61,781.25
2/1/2015	4.785%	210,000.00	61,781.25	271,781.25
8/1/2015	4.785%	--	58,631.25	58,631.25
2/1/2016	4.785%	215,000.00	58,631.25	273,631.25
8/1/2016	4.785%	--	55,406.25	55,406.25
2/1/2017	4.785%	220,000.00	55,406.25	275,406.25
8/1/2017	4.785%	--	52,106.25	52,106.25
2/1/2018	4.785%	225,000.00	52,106.25	277,106.25
8/1/2018	4.785%	--	48,731.25	48,731.25
2/1/2019	4.785%	235,000.00	48,731.25	283,731.25
8/1/2019	4.785%	--	45,206.25	45,206.25
2/1/2020	4.785%	240,000.00	45,206.25	285,206.25
8/1/2020	4.785%	--	41,606.25	41,606.25
2/1/2021	4.785%	245,000.00	41,606.25	286,606.25
8/1/2021	4.785%	--	37,931.25	37,931.25
2/1/2022	4.785%	255,000.00	37,931.25	292,931.25
8/1/2022	4.785%	--	34,106.25	34,106.25
2/1/2023	4.785%	260,000.00	34,106.25	294,106.25
8/1/2023	4.785%	--	30,076.25	30,076.25
2/1/2024	4.785%	270,000.00	30,076.25	300,076.25
8/1/2024	4.785%	--	25,756.25	25,756.25
2/1/2025	4.785%	280,000.00	25,756.25	305,756.25
8/1/2025	4.785%	--	21,206.25	21,206.25
2/1/2026	4.785%	290,000.00	21,206.25	311,206.25
8/1/2026	4.785%	--	16,312.50	16,312.50
2/1/2027	4.785%	300,000.00	16,312.50	316,312.50
8/1/2027	4.785%	--	11,250.00	11,250.00
2/1/2028	4.785%	305,000.00	11,250.00	316,250.00
8/1/2028	4.785%	--	5,760.00	5,760.00
2/1/2029	4.785%	320,000.00	5,760.00	325,760.00
Totals		<u>\$4,275,000.00</u>	<u>\$1,289,303.75</u>	<u>\$5,564,303.75</u>

CITY OF SANDSTONE, MINNESOTA  
 \$77,000 General Obligation Equipment Certificates, Series 2007B  
**STATEMENT OF BOND AND INTEREST MATURITIES**  
 December 31, 2012

Schedule 24

<u>Maturity</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2/1/2013	4.10%	17,000.00	348.50	17,348.50
	Totals	<u>\$ 17,000.00</u>	<u>\$ 348.50</u>	<u>\$ 17,348.50</u>

## CITY OF SANDSTONE, MINNESOTA

Schedule 25

\$340,000 Lease Purchase Public Works Building and Land

Lease Purchase with First National Bank of the North

**STATEMENT OF LEASE / PURCHASE PRINCIPAL AND INTEREST**

December 31, 2012

<u>Maturity</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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>\$ 317,000.00</u>	<u>\$ 102,850.00</u>	<u>\$ 419,850.00</u>

CITY OF SANDSTONE, MINNESOTA  
OTHER REPORTS  
December 31, 2012

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MEMBERS  
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 AND THE MINNESOTA LEGAL COMPLIANCE AUDIT GUIDE

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, 2012, which collectively comprise the City of Sandstone, Minnesota's basic financial statements and have issued our report thereon dated May 29, 2013. 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, and the provisions of the Legal Compliance Audit Guide for Political Subdivisions, promulgated by the legal compliance task force pursuant to Minnesota Statutes Sec. 6.65.

### **Internal Control over Financial Reporting**

Management of the City of Sandstone, Minnesota, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the 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. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying letter that we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.



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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 and the Minnesota Legal Compliance Audit Guide for Political Subdivisions* promulgated by the Legal Compliance Task Force pursuant to Minnesota Statutes Sec. 6.65.

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 complied with the material terms and conditions of applicable provisions. further, for items not tested, based on our audit, the procedures referred to above, nothing came to our attention to indicate that the City of Sandstone, Minnesota had not complied with such legal provisions.

This report is intended solely for the information and use of the City Council, management, others within the entity, and the Minnesota State Auditor, other state agencies, and is not intended to be and should not be used by anyone other than these specified parties.



Althoff & Nordquist, LLC  
Pine City, Minnesota  
May 29, 2013

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