

CITY OF SANDSTONE, MINNESOTA
BASIC FINANCIAL STATEMENTS
For the Year Ended December 31, 2014

CITY OF SANDSTONE, MINNESOTA

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CITY OF SANDSTONE, MINNESOTA
INTRODUCTORY SECTION
December 31, 2014

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CITY OF SANDSTONE, MINNESOTA

ORGANIZATION

December 31, 2014

City Council

Randy Atterbury	Mayor
Rene Stadin	Deputy Mayor
Tim Franklin	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, 2014

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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, 2014, 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, 2014, 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 20 and 32 through 33 be presented to supplement the basic 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 an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City 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 20, 2015 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 20, 2015

CITY OF SANDSTONE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2014

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Management's Discussion and Analysis

The Management Discussion and Analysis offers readers a financial statement overview and analysis of the financial activities for the City of Sandstone for the fiscal year ended December 31 2014. 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 58) and with the notes beginning on (page 40).

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 (starting on 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 40) 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 fourteen individual governmental funds and four proprietary funds. Financial information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the general fund, capital projects fund and EDA fund which are considered to be major funds for fiscal year 2014. Financial information from the remaining eleven 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 tree ordinance projects KREEC project. The capital, water, sewer and storm sewer funds have restricted cash for future repair and replacement projects. The Medical and Business Park fund is new in 2015. The fund will be used for the infrastructure for the development of the old airport property.

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

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 2013 and 2014 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	
	2014	2013	2014	2013	2014	2013
Assets:						
Current and other assets	\$ 3,566,010	\$ 3,381,619	\$ 3,788,946	\$ 3,763,772	\$ 7,354,956	\$ 7,145,391
Capital assets	4,230,798	4,509,464	9,513,282	9,731,619	13,744,080	14,241,083
Total assets	\$ 7,796,808	\$ 7,891,083	\$ 13,302,228	\$ 13,495,391	\$ 21,099,036	\$ 21,386,474
Liabilities:						
Other liabilities	\$ 750,509	\$ 820,197	\$ 95,997	\$ 61,204	\$ 846,506	\$ 881,401
Long-term debt outstanding	1,297,000	1,508,000	3,921,484	4,129,047	5,218,484	5,637,047
Total liabilities	2,047,509	2,328,197	4,017,481	4,190,251	6,064,990	6,518,448
Net assets:						
Invested in capital assets, net of debt	2,933,798	3,001,464	5,591,798	5,602,572	8,525,596	8,604,036
Restricted	1,893,406	2,255,922	1,075,995	1,153,790	2,969,401	3,409,712
Unrestricted (deficit)	921,395	305,500	2,616,954	2,548,778	3,538,349	2,854,278
Total Net assets	\$ 5,748,599	\$5,562,886	\$ 9,284,747	\$ 9,305,140	\$ 15,033,346	\$ 14,868,026

The largest portion of the City of Sandstone's total net asset is invested in capital assets (net) of \$2,933,798. The investments in capital assets are used to provide services to citizens and are not available for future spending. The unrestricted net assets of \$921,395 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 (\$5,591,798), which include all infrastructure and buildings of water, sewer, storm water and Wild River Apartments.

The City of Sandstone reported an increase in net assets for governmental activities of \$185,713 and an decrease in business-type activities of \$20,378 after transfers. Key elements of this increase and decrease are as follows:

Changes in Net Position

	<u>Governmental Activities</u>		<u>Business- Type Activities</u>		<u>Total Primary Government</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Program revenues:						
Charges for services	\$ 266,131	\$ 346,489	\$ 1,214,502	\$ 1,174,621	\$ 1,480,633	\$ 1,521,110
Grants	1,081,059	901,575	--	--	1,081,059	901,575
General revenues:						
Property taxes	467,520	505,955	--	--	467,520	505,955
Other taxes	--	--	--	--	--	--
Other general revenues	12,584	9,469	36,806	41,414	49,390	50,883
Total revenues	<u>1,827,294</u>	<u>1,763,488</u>	<u>1,251,308</u>	<u>1,216,035</u>	<u>3,078,602</u>	<u>2,979,523</u>
Program expenses:						
General government	574,475	596,412	-	-	574,475	596,412
Public safety	317,341	(59,162)	-	-	317,341	(59,162)
Public works	285,911	234,474	-	-	285,911	234,474
Culture and Recreation	28,935	38,686	-	-	28,935	38,686
Other general expenditures	126,002	89,947	-	-	126,002	89,947
Debt service	44,867	31,456	-	-	44,867	31,456
Capital expenditures	262,928	529,360	-	-	262,928	529,360
Water	--	--	319,645	219,660	319,645	219,660
Sewer	--	--	330,026	314,447	330,026	314,447
Storm water	--	--	35,255	25,558	35,255	25,558
Wild River Apartments	--	--	461,259	462,983	461,259	462,983
Total expenses	<u>1,640,459</u>	<u>1,461,173</u>	<u>1,146,185</u>	<u>1,022,648</u>	<u>2,786,644</u>	<u>2,483,821</u>
Excess (deficiency) before special items and transfers						
	186,835	302,315	(21,515)	63,174	165,320	365,489
Transfers in (out)	(1,122)	(17,204)	1,122	17,204	--	--
Increase (decrease) in net position	<u>\$ 185,713</u>	<u>\$ 285,111</u>	<u>\$ (20,393)</u>	<u>\$ 80,378</u>	<u>\$ 165,320</u>	<u>\$ 365,489</u>

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

Financial Highlights

- Total assets for governmental activities are \$7,796,808 and total liabilities are \$2,047,509 with a total net position of \$5,748,599 for fiscal year-end 2014. Of this amount, \$921,395 (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 \$285,053. Fund balance increased in total governmental funds from \$2,450,045 in 2013 to \$2,735,098 in 2014.
- The unassigned fund balance for the general fund was \$479,934 or 35 percent of total general fund expenditures and 38% of fund operating revenues.
- Total governmental activity outstanding debt obligations decreased by \$211,000 with reduction of debt service by regular scheduled bond payments (per reconciliation). Business-type activity debt service increased by \$205,000.

Analysis of Financial Activities – Government wide

The capital projects included the 2014 street projects, legal and engineer expenses for the medical campus and business park site.

The fiscal year end December 31, 2014 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, 2014 is \$13,744,080 (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, 2014, are as follows:

Governmental Activities	<u>Beginning Balances</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balances</u>
Total Capital Assets	10,944,897	44,827	9,000	10,980,724
Total Accumulated Depreciation	<u>6,435,434</u>	<u>323,492</u>	<u>9,000</u>	<u>6,749,926</u>
Total Capital Assets, Net of Depreciation	<u>\$ 4,509,463</u>	<u>\$ (278,665)</u>	<u>\$ --</u>	<u>\$ 4,230,798</u>
 <u>Business - Type Activities</u>				
Total Capital Assets	19,903,653	212,568	--	20,116,221
Total Accumulated Depreciation	<u>10,172,034</u>	<u>430,905</u>	<u>--</u>	<u>10,602,939</u>
Business - Type Capital Assets, Net	<u>\$ 9,731,619</u>	<u>\$ (218,337)</u>	<u>\$ --</u>	<u>\$ 9,513,282</u>

Governmental assets decrease of \$278,665 reflects a decrease over annual depreciation.

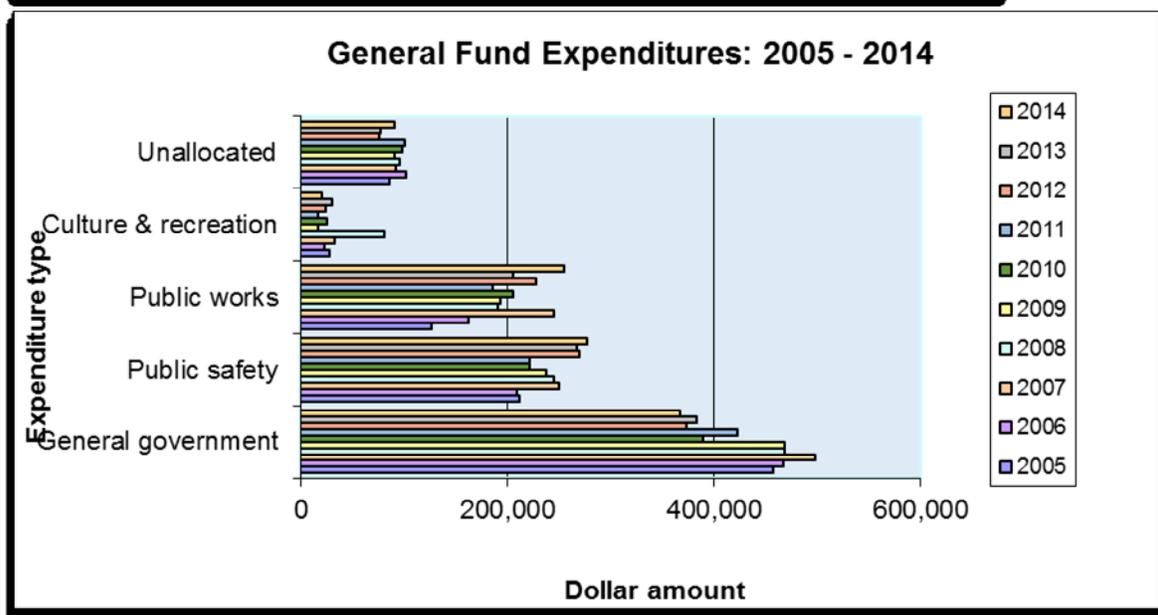
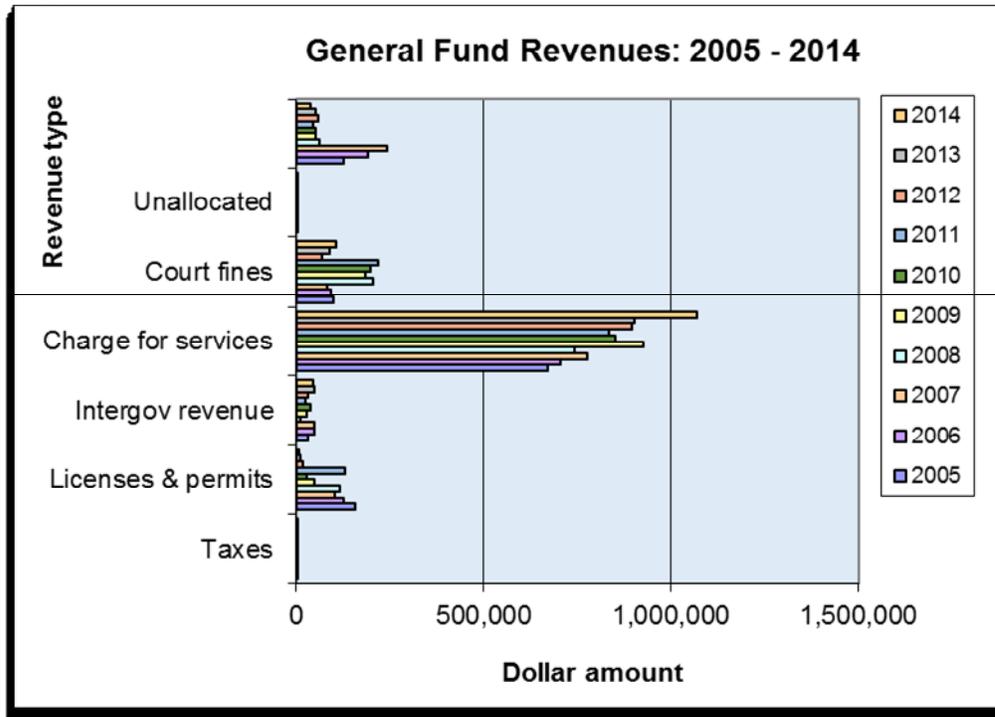
Business type activities total capital assets decrease of \$218,337 reflects a decrease over annual depreciation.

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 \$105,197 from \$1,085,853 in fiscal year 2013 to \$980,656 in 2014. The decrease reflects the net of \$250,000 transfer to the new Medical and Business Park fund and an increase of intergovernmental revenue of \$169,000 (local government aid). Taxes increased from \$8,976 in 2013 to \$10,326 in 2014. Charges for services increased \$16,363 also due to increased fire services.

Expenditures increased from \$1,123,192 in 2013 to \$1,375,375 in 2014 and revenue increased \$162,476. This contributed to the general fund balance decrease from \$1,251,528 in 2013 to \$1,143,145 in 2014. The following two graphs show the general fund revenues and expenditures comparison from 2004 through 2013.

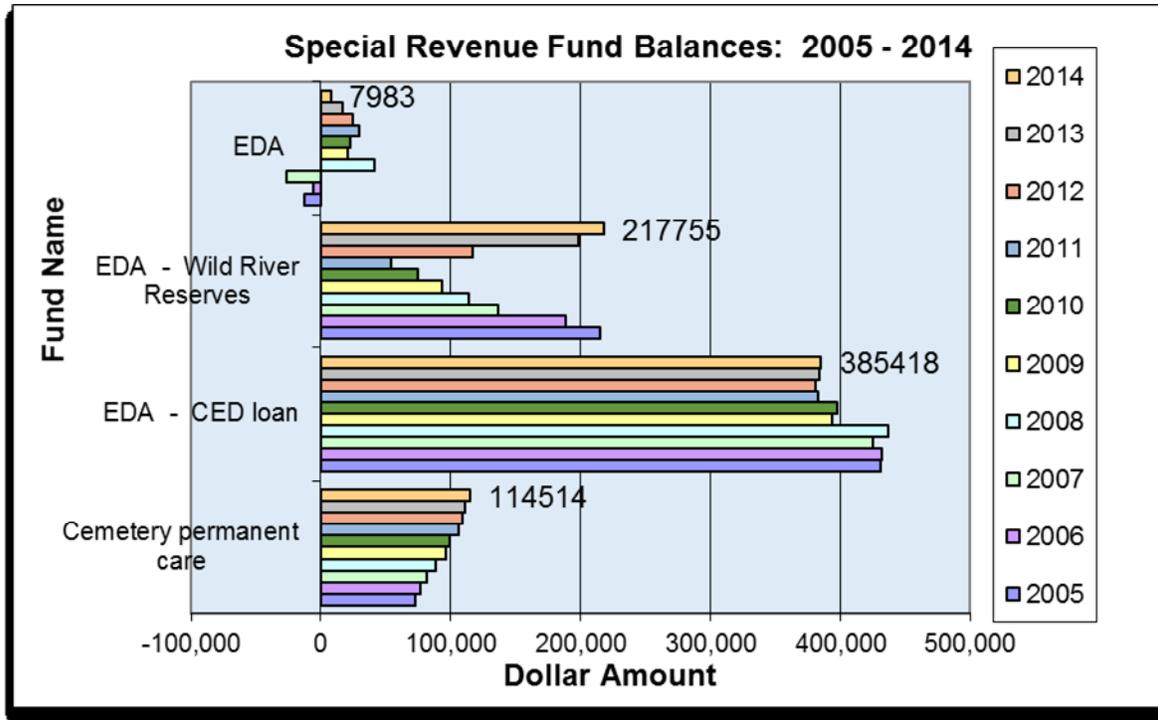


Special Revenue Funds

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 2014.

Special revenue funds reflect minor variations between fund balances from fiscal year 2005 to 2014.



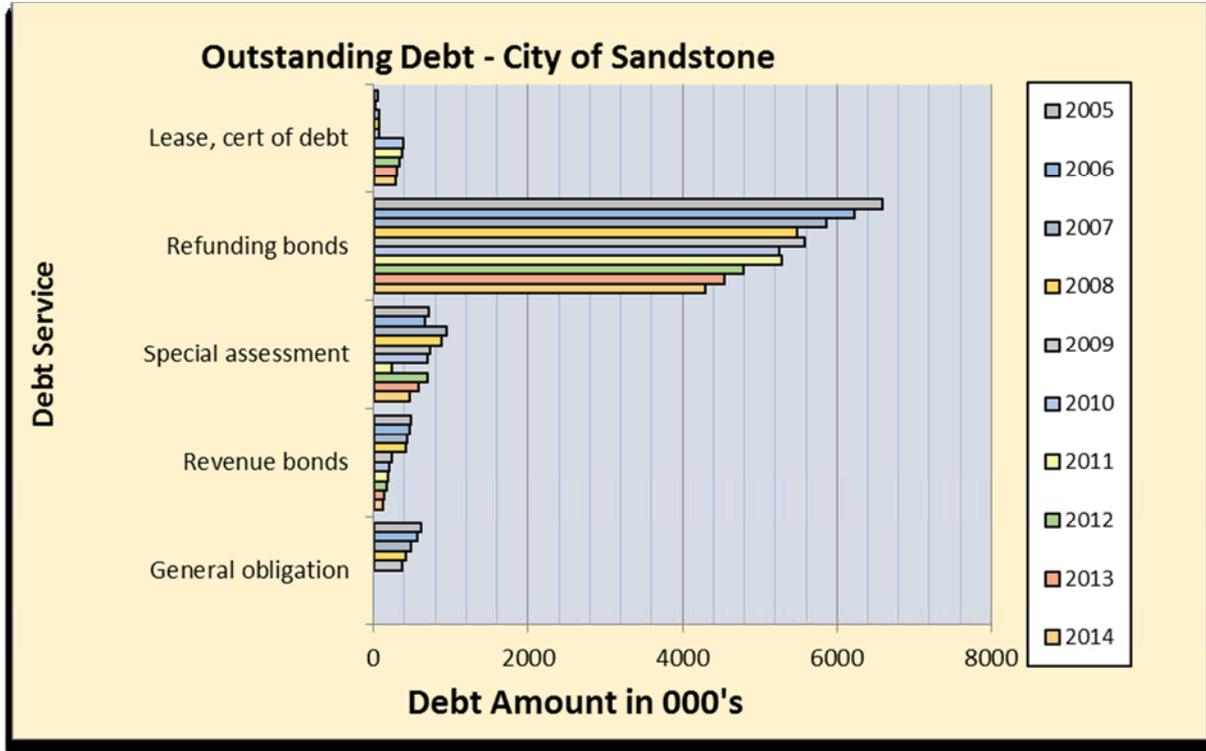
The EDA Wild River Reserves fund balance increased by \$18,894. Bond payment shortfall of \$69,522 was less than the taxes collected of \$108,058.

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 six debt service funds. There was not any new debt issued in 2014.

The following chart reflects the City of Sandstone types of bonds and bond outstanding balances for fiscal year end 2005-2014.



The City of Sandstone’s total net bonds and notes payable principal decreased by \$416,000 during the 2014 fiscal year. The decrease is the result of scheduled debt payments. The fiscal year end principal balance changed from \$1,508,000 in 2013 to \$1,297,000 in 2014.

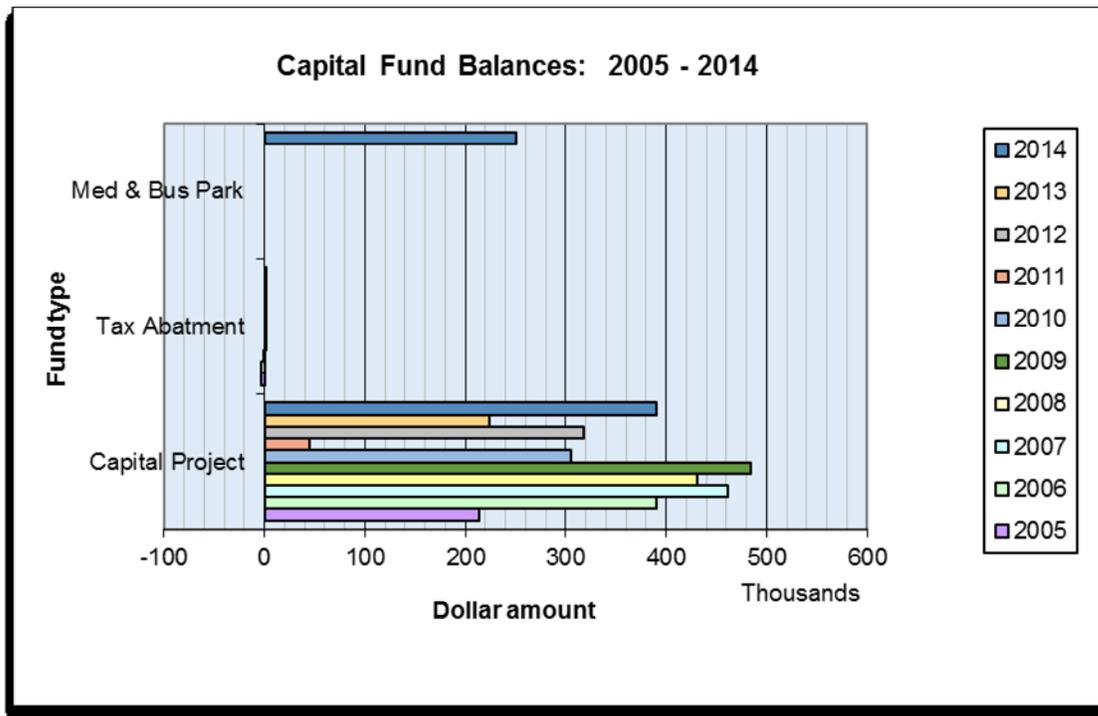
The Economic Development Authority (EDA) refunded debt to reduce bond rates and reduce annual principal and interest payment. The bond principal balance decreased from \$4,075,000 in 2011 to \$3,870,000 in 2014.

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 2014. The tax abatement fund was created in 2006 to abate taxes for the Kettle River Townhouse. The Medical and Business Park fund was created in 2014 with the infrastructure upgrades required for the airport property. Council approved \$250,000 transfer from the general fund to the medical and business park fund in 2014.



The capital projects fund balance increased from \$224,546 in 2013 to \$390,271 in 2014.

Major expenditures in the capital project fund for fiscal year 2014 included street project and maintenance, manhole restoration and medical and business park plans of approximately \$146,479. Total expenditures were down from \$513,856 in 2013 (which included the purchase of a new fire truck) to \$247,546 in 2014.

Revenues increased from \$292,421 in 2013 to \$301,998 in 2014. The 2013 insurance claim balance of \$112,136 remains restricted for the new owner of the school building.

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 four proprietary funds: water, sewer, storm water and wild river apartments.

Proprietary Funds overall operations 2011 to 2014 comparison:

	2014 Total	2013 Total	2012 Total	2011 Total	2013-14 Change
Operating revenues:					
Sales & charges for services	1,212,271	1,166,644	1,221,595	1,346,871	45,627
Unallocated revenue	2,231	7,977	8,444	3,021	(5,746)
Total operating revenues	1,214,502	1,174,621	1,230,039	1,349,892	39,881
Operating expenses:					
Maintenance and operations	715,280	601,155	542,153	716,642	114,125
Depreciation	430,905	421,493	435,523	436,076	9,412
Total Operating Expenses	1,146,185	1,022,648	977,676	1,152,718	123,537
Operating Income (Loss)	68,317	151,973	252,363	197,174	(83,656)
Non-operating revenues (expenses):					
Interest earned	36,806	41,413	38,229	48,680	(4,607)
Sale of Assets/Property		--	86,651	--	--
Interest expense	(126,638)	(130,213)	(175,866)	(208,663)	3,575
Total non-operating revenues (exp)	(89,832)	(88,800)	(50,986)	(159,983)	(1,032)
Net Income (loss) before transfers	(21,515)	63,173	201,377	37,191	(84,688)
Transfers In	69,522	85,894	277,360	148,225	(16,372)
Transfers out	68,400	(68,689)	(194,309)	(233,690)	137,089
Changes in net assets	(20,393)	80,378	284,428	(48,274)	(100,771)
Total net assets - beginning	9,305,140	9,224,762	8,940,334	8,988,608	80,378
Total net assets - ending	9,284,747	9,305,140	9,224,762	8,940,334	(20,393)

Operating Revenue – increase	\$ 39,881
Operating Expense - increase	\$ 123,537
Non-operating Revenue – increase (expense)	\$ (1,032)

Net position decreased by \$20,393. The increases came from Wild River apartments (+133M) sewer (+5M), water (-148M) and storm water (-9M) funds.

Wild River apartments fund operating revenues increased by \$34,070 offset by the operating expenses decrease of \$1,724. The net assets increased by \$133,638, reflecting an increase of sales and charges and reduction in bond payment shortfalls. The annual levy was reduced to \$100,000 in 2014 from \$150,000 annually from 2010-2013.

Net position for the Water Fund decreased \$148,158 due to major water infrastructure repair. Sewer Fund net position increased \$3,577. Storm Water Fund decreased net assets by \$9,450. 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 has been designated as possible site for a maintenance and/or layover facility by MNDOT.

City and EDA signed a preliminary Development Agreement with the North Pine Area Hospital District for the development of a medical campus site. This will lead to a Contract for Private Development and a Purchase Agreement in early 2015. City held its 429 Assessment Hearing and ordered plans and specifications for the infrastructure work. City received \$ 200,000 in MN State Bonding funds.

City continues to participate in the Initiative Foundation's Thriving Communities program by carrying out and helping fund activities planned by three Task Forces.

City and the Library Foundation continue working with LHB Architects in planning for a new public library space.

City sold old public works site to Anderson Recycling.

City is continuing work on a multi-year invasive species removal project in Robinson Park through a Conservation Partners Grant.

Robinson Park was given preliminary designation by the Greater MN Regional Parks & Trails Commission as a park of regional significance. Upon updating of the Park's Master Plan, Robinson Park should be able to apply directly for MN Legacy Funds.

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.

CITY OF SANDSTONE, MINNESOTA
BASIC FINANCIAL STATEMENTS
For the Year Ended December 31, 2014

STATEMENT OF NET POSITION

December 31, 2014

(With Comparative Amounts for December 31, 2013)

	Governmental Activities	Business - Type Activities	2014 Total	2013 Total
ASSETS				
Cash & cash equivalents	\$ 2,122,303	\$ 331,461	\$ 2,453,764	\$ 2,404,356
Cash with Fiscal Agent	--	58,766	58,766	46,980
Investments	272,875	1,866,036	2,138,911	1,895,271
Accounts receivable	60,802	11,375	72,177	94,424
Delinquent property tax	43,075	--	43,075	55,668
Special assessments receivable	2,112	5,722	7,834	10,861
Special assessments deferred	71,429	--	71,429	94,625
Due from other funds	292,945	433,797	726,742	733,585
Bond discount and refunding		181,177	181,177	204,394
Inventory	--	--	--	--
Prepaid expenses	18,418	15,089	33,507	30,451
Restricted cash	634,475	885,523	1,519,998	1,512,362
Restricted investments	46,814	--	46,814	62,414
Deferred charges	--	--	--	--
Capital assets, net	4,230,798	9,513,282	13,744,080	14,241,083
Total assets	<u>\$ 7,796,046</u>	<u>\$ 13,302,228</u>	<u>\$ 21,098,274</u>	<u>\$ 21,386,474</u>
LIABILITIES				
Accounts payable	\$ 552	\$ 5,759	\$ 6,311	\$ 26,684
Due to other funds	684,493	41,549	726,042	733,585
Accrued expenses	28,550	--	28,550	25,982
Unearned revenue	--	5,722	5,722	6,185
Security deposits	--	41,595	41,595	43,675
Interest payable	36,914	1,372	38,286	45,290
Non current liabilities:				
Due within one year	143,000	51,484	194,484	470,047
Due in more than one year	1,154,000	3,870,000	5,024,000	5,167,000
Total liabilities	<u>\$ 2,047,509</u>	<u>\$ 4,017,481</u>	<u>\$ 6,064,990</u>	<u>\$ 6,518,448</u>
NET POSITION				
Invested in capital assets, net of related debt	\$ 2,933,798	\$ 5,591,798	\$ 8,525,596	\$ 8,604,036
Restricted for:				
Special revenue	717,687	--	717,687	683,771
Debt service	226,010	--	226,010	262,572
Capital projects	250,002	--	250,002	595,300
Other purposes	699,707	1,075,995	1,775,702	1,868,069
Unrestricted	921,395	2,616,954	3,538,349	2,854,278
Total net position	<u>\$ 5,748,599</u>	<u>\$ 9,284,747</u>	<u>\$ 15,033,346</u>	<u>\$ 14,868,026</u>

See Notes to Financial Statements.

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CITY OF SANDSTONE, MINNESOTA
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2014
(With Comparative Amounts for the Year Ended December 31, 2013)

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Functions/Programs				
Governmental Activities:				
General government	\$ 574,475	\$ 105,615	\$ 1,081,059	\$ --
Public safety	317,341	44,462	--	--
Public works	285,911	--	--	--
Culture and recreation	28,935	21,825	--	--
Debt service	44,867	--	--	--
Capital expenditure	262,928	--	--	--
Unallocated	126,002	94,229	--	--
Total Governmental Activities	1,640,459	266,131	1,081,059	--
 Business - Type Activities:				
Water utility	319,645	215,277	--	--
Sewer utility	330,026	313,418	--	--
Storm water	35,255	33,794	--	--
Wild River apartment	587,897	652,013	--	--
Total Business - Type Activities	1,272,823	1,214,502	--	--
 General Revenues:				
Property tax				
Tax increments				
Sale of Property				
Interest and investment earnings				
Transfers				
Total General Revenues and Transfers				
 Change in Net Position				
Prior period adjustment				
Net Position, Beginning of Year				
 Net Position, End of Year				

See Notes to Financial Statements.

Net (Expenses) Revenues and Changes in Net Position			
Governmental Activities	Business - Type Activities	2014 Total	2013 Total
\$ 612,199	\$ --	\$ 612,199	\$ 490,286
(272,879)	--	(272,879)	124,395
(285,911)	--	(285,911)	(234,474)
(7,110)	--	(7,110)	(13,151)
(44,867)	--	(44,867)	(31,456)
(262,928)	--	(262,928)	(529,360)
(31,773)	--	(31,773)	(19,349)
<u>(293,269)</u>	<u>--</u>	<u>(293,269)</u>	<u>(213,109)</u>
--	(104,368)	(104,368)	4,296
--	(16,608)	(16,608)	(18,064)
--	(1,461)	(1,461)	10,781
--	64,116	64,116	24,747
--	--	--	--
<u>--</u>	<u>(58,321)</u>	<u>(58,321)</u>	<u>21,760</u>
\$ 467,520	\$ --	\$ 467,520	\$ 505,955
--	--	--	--
--	--	--	--
12,584	36,806	49,390	50,883
(1,122)	1,122	--	--
<u>478,982</u>	<u>37,928</u>	<u>516,910</u>	<u>556,838</u>
185,713	(20,393)	165,320	365,489
<u>5,562,886</u>	<u>9,305,140</u>	<u>14,868,026</u>	<u>14,502,537</u>
<u>\$ 5,748,599</u>	<u>\$ 9,284,747</u>	<u>\$ 15,033,346</u>	<u>\$ 14,868,026</u>

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CITY OF SANDSTONE, MINNESOTA
FUND FINANCIAL STATEMENTS
December 31, 2014

CITY OF SANDSTONE, MINNESOTA

Statement 3

Governmental Funds

BALANCE SHEET

December 31, 2014

	General Fund	Capital Project Fund	EDA Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS					
Cash & cash equivalents	\$ 815,796	\$ 210,984	\$ 135,283	\$ 960,240	\$ 2,122,303
Investments	--	--	250,000	22,875	272,875
Accounts receivable	8,228	16,866	--	35,708	60,802
Delinquent property tax	2,541	18,115	668	21,751	43,075
Special assessments	316	2	--	1,794	2,112
Special assessments deferred	--	--	--	71,429	71,429
Due from other funds	164,945	--	--	127,300	292,245
Bond discount	--	--	--	762	762
Prepaid expense	18,418	--	--	--	18,418
Restricted cash	164,860	469,615	--	--	634,475
Restricted investments	--	--	--	46,814	46,814
Total Assets	<u>\$ 1,175,104</u>	<u>\$ 715,582</u>	<u>\$ 385,951</u>	<u>\$ 1,288,673</u>	<u>\$ 3,565,310</u>
LIABILITIES & FUND BALANCE					
<u>Liabilities:</u>					
Accounts payable	\$ 552	\$ --	\$ --	\$ --	552
Accrued expenses	28,550	--	--	--	28,550
Due to other funds	--	307,193	377,300	--	684,493
Unearned revenue	2,857	18,118	668	94,974	116,617
Total Liabilities	<u>31,959</u>	<u>325,311</u>	<u>377,968</u>	<u>94,974</u>	<u>830,212</u>
<u>Fund Balance:</u>					
Nonspendable	18,418	--	--	--	18,418
Restricted	164,860	469,615	--	--	634,475
Committed	--	--	--	--	--
Assigned	479,933	--	7,983	1,193,699	1,681,615
Unassigned	479,934	(79,344)	--	--	400,590
Total fund balance	<u>1,143,145</u>	<u>390,271</u>	<u>7,983</u>	<u>1,193,699</u>	<u>2,735,098</u>
Total liabilities and fund balances	<u>\$ 1,175,104</u>	<u>\$ 715,582</u>	<u>\$ 385,951</u>	<u>\$ 1,288,673</u>	<u>\$ 3,565,310</u>

CITY OF SANDSTONE, MINNESOTA
**RECONCILIATION OF NET POSITION IN THE
GOVERNMENT-WIDE FINANCIAL STATEMENTS AND FUND BALANCE
IN THE FUND BASIC FINANCIAL STATEMENTS**
December 31, 2014
(With Comparative Amounts for December 31, 2013)

Statement 4

	2014	2013
Amounts reported for governmental activities in the Statements of Net Position are different because:		
Total Governmental Fund Balance	<u>\$ 2,735,098</u>	<u>\$ 2,450,044</u>
<p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the Funds.</p>		
Governmental Capital Assets	10,980,724	10,944,897
Less: Accumulated Depreciation	<u>(6,749,926)</u>	<u>(6,435,433)</u>
	<u>4,230,798</u>	<u>4,509,464</u>
<p>Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the Funds.</p>		
Deferred Revenue	<u>116,617</u>	<u>155,328</u>
<p>Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.</p>		
Bonds Payable	(1,297,000)	(1,508,000)
Bond Interest Payable	<u>(36,914)</u>	<u>(43,950)</u>
	<u>(1,333,914)</u>	<u>(1,551,950)</u>
Net Position of Governmental Activities	<u>\$ 5,748,599</u>	<u>\$ 5,562,886</u>

See Notes to Financial Statements.

Governmental Funds

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

For the Years Ended December 31, 2014

	General Fund	Capital Project Fund	EDA Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES					
Property taxes	\$ 7,326	\$ 223,025	\$ 7,761	\$ 203,715	\$ 441,827
Special assessments	313	273	--	25,107	25,693
Licenses & permits	44,462	--	--	--	44,462
Intergovernmental revenue	1,070,577	--	--	--	1,070,577
Charges for services	105,615	--	--	--	105,615
Court fines	1,641	--	--	--	1,641
Interest	8,809	1,374	293	2,108	12,584
Rent	21,825	--	--	--	21,825
Miscellaneous	6,424	77,327	--	10,478	94,229
Total Revenues	<u>1,266,992</u>	<u>301,999</u>	<u>8,054</u>	<u>241,408</u>	<u>1,818,453</u>
EXPENDITURES					
General government	367,629	--	--	--	367,629
Public safety	277,056	--	--	--	277,056
Public works	254,920	--	--	--	254,920
Culture & recreation	20,540	--	--	--	20,540
Miscellaneous	60,555	--	1,500	32,199	94,254
Debt service	--	--	--	254,950	254,950
Capital expenditures	--	247,424	15,504	--	262,928
Total Expenditures	<u>980,700</u>	<u>247,424</u>	<u>17,004</u>	<u>287,149</u>	<u>1,532,277</u>
Excess (deficiency) of revenues over (under) expenditures	286,292	54,575	(8,950)	(45,741)	286,176
OTHER FINANCING RESOURCES (USES)					
Bond proceeds	--	--	--	--	--
Transfer in	--	111,150	--	351,925	463,075
Transfer (out)	(394,675)	--	--	(69,522)	(464,197)
Total other financing sources (uses)	<u>(394,675)</u>	<u>111,150</u>	<u>--</u>	<u>282,403</u>	<u>(1,122)</u>
Net change in fund balances	(108,383)	165,725	(8,950)	236,662	285,054
Fund balances - beginning	<u>1,251,528</u>	<u>224,546</u>	<u>16,933</u>	<u>957,037</u>	<u>2,450,044</u>
Fund balances - ending	<u>\$ 1,143,145</u>	<u>\$ 390,271</u>	<u>\$ 7,983</u>	<u>\$ 1,193,699</u>	<u>\$ 2,735,098</u>

See Notes to Financial Statements.

CITY OF SANDSTONE, MINNESOTA
**RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN NET POSITION OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**
December 31, 2014
(With Comparative Amounts for December 31, 2013)

Statement 6

	2014	2013
Amounts reported for governmental activities in the Statements of Activities are different because:		
Net Changes in Fund Balance - Total Governmental Funds	\$ 285,054	\$ (8,565)
<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	44,827	381,523
Depreciation expense	(323,492)	(308,859)
	(278,665)	72,664
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
Unearned revenue	(38,711)	6,118
<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	--	-
Principal retirement on long-term debt	211,000	207,000
Accrued interest on bonds payable	7,035	7,894
	218,035	214,894
Change in net position of Governmental Activities	\$ 185,713	\$ 285,111

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, 2014

	Original and Amended Budget Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Taxes	\$ --	\$ 7,326	\$ 7,326
Special assessments	5,000	313	(4,687)
Licenses & permits	24,000	44,462	20,462
Intergovernmental revenue	1,058,530	1,070,577	12,047
Charges for services	79,900	105,615	25,715
Court fines	2,500	1,641	(859)
Miscellaneous	32,000	37,058	5,058
Total Revenues	<u>1,201,930</u>	<u>1,266,992</u>	<u>65,062</u>
EXPENDITURES			
General government:			
Mayor & council	875	2,178	1,303
Executive	206,703	186,759	(19,944)
Elections & voter registration	4,000	5,025	1,025
Finance administration	74,625	72,251	(2,374)
Legal fees	36,000	37,897	1,897
City engineer	15,000	21,432	6,432
City hall	29,800	25,215	(4,585)
Economic development	16,650	16,872	222
Total general government	<u>383,653</u>	<u>367,629</u>	<u>(16,024)</u>
Public Safety:			
Safety	1,600	861	(739)
Police protection	114,350	114,023	(327)
Fire protection	150,619	151,170	551
Building inspections	24,900	10,034	(14,866)
Animal control	1,400	968	(432)
Total public safety	<u>292,869</u>	<u>277,056</u>	<u>(15,813)</u>
Public works:			
Administration			
Employee services	209,981	227,762	17,781
Street lighting	29,000	27,158	(1,842)
Total public works	<u>238,981</u>	<u>254,920</u>	<u>15,939</u>
Culture & Recreation:			
Park and recreation	18,000	15,218	(2,782)
Library	3,240	3,254	14
Airport	1,200	2,068	868
Total culture & recreation	<u>22,440</u>	<u>20,540</u>	<u>(1,900)</u>

See Notes to Financial Statements.

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

For the Years Ended December 31, 2014

	Original and Amended Budget Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
Expenditures (Continued)			
Miscellaneous			
Cemetery	10,250	14,431	4,181
Non-departmental	83,008	46,124	(36,884)
Total miscellaneous	<u>93,258</u>	<u>60,555</u>	<u>(32,703)</u>
Total expenditures	<u>1,031,201</u>	<u>980,700</u>	<u>(50,501)</u>
Excess of revenues over (under) expenditures	<u>170,729</u>	<u>286,292</u>	<u>115,563</u>
Other Financing Sources (Uses):			
Transfer in	--	--	--
Transfer (out)	(366,780)	(394,675)	(27,895)
Total other financing sources (uses)	<u>(366,780)</u>	<u>(394,675)</u>	<u>(27,895)</u>
Net change in fund balance	(196,051)	(108,383)	87,668
Fund balance -beginning	<u>1,251,528</u>	<u>1,251,528</u>	<u>--</u>
Fund balance - ending	<u>\$ 1,055,477</u>	<u>\$ 1,143,145</u>	<u>\$ 87,668</u>

See Notes to Financial Statements.

Proprietary Funds

STATEMENT OF NET POSITION

December 31, 2014

	Water Utility Fund	Sewer Utility Fund	Storm Water Fund	Wild River Apartment Fund	Total
ASSETS					
Current Assets:					
Cash & cash equivalents	\$ --	\$ --	\$ 146,880	\$ 184,581	\$ 331,461
Cash with Fiscal Agent	--	--	--	58,766	58,766
Investments	--	1,651,013	--	215,023	1,866,036
Accounts receivable	3,979	12,928	889	(6,421)	11,375
Due from other funds	--	392,248	41,549	--	433,797
Bond discount and refunding	--	--	--	181,177	181,177
Prepaid expenses	1,765	1,619	--	11,705	15,089
Special assessments receivable	3,433	2,289	--	--	5,722
Restricted cash	409,261	472,087	--	4,175	885,523
Total current assets	418,438	2,532,184	189,318	649,006	3,788,946
Noncurrent assets:					
Deferred charges	--	--	--	--	--
Capital assets:					
Land	--	--	--	157,015	157,015
Plant in service	4,695,002	9,971,072	1,000,924	4,225,475	19,892,473
Equipment and fixtures	--	66,733	--	--	66,733
Less: allowance for depreciation	(2,754,756)	(5,157,360)	(633,052)	(2,057,771)	(10,602,939)
Total noncurrent assets	1,940,246	4,880,445	367,872	2,324,719	9,513,282
Total Assets	\$ 2,358,684	\$ 7,412,629	\$ 557,190	\$ 2,973,725	\$ 13,302,228
LIABILITIES					
Current Liabilities:					
Accounts payable	\$ --	\$ --	\$ --	\$ 5,759	\$ 5,759
Bonds payable-current	--	--	--	51,484	51,484
Unearned revenue	3,433	2,289	--	--	5,722
Due to other funds	--	41,549	--	--	41,549
Interest payable	--	--	--	1,372	1,372
Security deposits	--	--	--	41,595	41,595
Total Current Liabilities	3,433	43,838	--	100,210	147,481
Noncurrent liabilities:					
Bonds payable	--	--	--	3,870,000	3,870,000
Total noncurrent liabilities	--	--	--	3,870,000	3,870,000
Total Liabilities	\$ 3,433	\$ 43,838	\$ --	\$ 3,970,210	\$ 4,017,481
NET POSITION					
Invested in capital assets, net of related debt	\$ 1,940,246	\$ 4,880,445	\$ 367,872	\$ (1,596,765)	\$ 5,591,798
Restricted for:					
Restricted assets	409,261	472,087	--	--	881,348
Prepaid items	1,765	--	--	192,882	194,647
Unrestricted	3,979	2,016,259	189,318	407,398	2,616,954
Total Net Position	\$ 2,355,251	\$ 7,368,791	\$ 557,190	\$ (996,485)	\$ 9,284,747

See Notes to Financial Statements.

Proprietary Funds

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

For the Year Ended December 31, 2014

	Water Utility Fund	Sewer Utility Fund	Storm Water Fund	Wild River Apartment Fund	Total
Operating revenues:					
Sales & charges for services	\$ 214,223	\$ 312,241	\$ 33,794	\$ 652,013	\$ 1,212,271
Miscellaneous	1,054	1,177	--	--	2,231
Total operating revenues	<u>215,277</u>	<u>313,418</u>	<u>33,794</u>	<u>652,013</u>	<u>1,214,502</u>
Operating expenses:					
Maintenance and operations	227,727	120,527	14,198	352,828	715,280
Depreciation	91,918	209,499	21,057	108,431	430,905
Total Operating Expenses	<u>319,645</u>	<u>330,026</u>	<u>35,255</u>	<u>461,259</u>	<u>1,146,185</u>
Operating Income (Loss)	<u>(104,368)</u>	<u>(16,608)</u>	<u>(1,461)</u>	<u>190,754</u>	<u>68,317</u>
Nonoperating revenues (expenses):					
Interest earned	1,210	35,185	411	--	36,806
Sale of Assets/Property				--	--
Interest expense	--	--	--	(126,638)	(126,638)
Total nonoperating revenues (expenses)	<u>1,210</u>	<u>35,185</u>	<u>411</u>	<u>(126,638)</u>	<u>(89,832)</u>
Net Income (Loss) Before Transfers and Contributions	(103,158)	18,577	(1,050)	64,116	(21,515)
Transfers in	--	--	--	69,522	69,522
Transfers out	<u>(45,000)</u>	<u>(15,000)</u>	<u>(8,400)</u>	<u>--</u>	<u>(68,400)</u>
Changes in net position	<u>(148,158)</u>	<u>3,577</u>	<u>(9,450)</u>	<u>133,638</u>	<u>(20,393)</u>
Total net position - beginning	<u>2,503,409</u>	<u>7,365,214</u>	<u>566,640</u>	<u>(1,130,123)</u>	<u>9,305,140</u>
Total net position - ending	<u>\$ 2,355,251</u>	<u>\$ 7,368,791</u>	<u>\$ 557,190</u>	<u>\$ (996,485)</u>	<u>\$ 9,284,747</u>

See Notes to Financial Statements.

Proprietary Funds

STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2014

	Water Utility Fund	Sewer Utility Fund	Storm Water Fund	Wild River Apartment Fund	Total
<u>Cash Flows from Operating Activities:</u>					
Cash received from customers	\$ 216,860	\$ 316,783	\$ 37,107	\$ 666,231	\$ 1,236,981
Cash payments to suppliers	(149,126)	(36,640)	(55,747)	(340,639)	(582,152)
Net Cash Provided (Used) by Operating Activities	<u>67,734</u>	<u>280,143</u>	<u>(18,640)</u>	<u>325,592</u>	<u>654,829</u>
<u>Cash Flows from Noncapital Financing Activities:</u>					
Transfers in	--	--	--	69,522	69,522
Transfers out	(45,000)	(15,000)	(8,400)	--	(68,400)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(45,000)</u>	<u>(15,000)</u>	<u>(8,400)</u>	<u>69,522</u>	<u>1,122</u>
<u>Cash Flows from Capital and Related Financing Activities:</u>					
Interest & fiscal charges paid on capital debt	--	--	--	(126,638)	(126,638)
Principal paid on capital debt	--	--	--	(205,000)	(205,000)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>--</u>	<u>--</u>	<u>--</u>	<u>(331,638)</u>	<u>(331,638)</u>
<u>Cash Flows from Investing Activities:</u>					
Property purchases	(151,661)	(49,116)	--	(11,791)	(212,568)
Purchased investments	--	(79,319)	--	(2,563)	(81,882)
Interest earned	1,210	35,185	411	--	36,806
Net Cash Provided (Used) by Investing Activities	<u>(150,451)</u>	<u>(93,250)</u>	<u>411</u>	<u>(14,354)</u>	<u>(257,644)</u>
Net Increase (Decrease) in Cash	(127,717)	171,893	(26,629)	49,122	66,669
Cash, January 1	<u>536,978</u>	<u>1,951,207</u>	<u>173,509</u>	<u>413,423</u>	<u>3,075,117</u>
Cash, December 31	<u><u>\$ 409,261</u></u>	<u><u>\$ 2,123,100</u></u>	<u><u>\$ 146,880</u></u>	<u><u>\$ 462,545</u></u>	<u><u>\$ 3,141,786</u></u>

See Notes to Financial Statements.

Proprietary Funds

STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2014

	Water Utility Fund	Sewer Utility Fund	Storm Water Fund	Wild River Apartment Fund	Total
<u>Reconciliation of Operating Income to Net Cash</u>					
<u>Provided (Used) by Operating Activities:</u>					
Operating income (loss)	\$ (104,368)	\$ (16,608)	\$ (1,461)	\$ 190,754	\$ 68,317
<u>Adjustments to Reconcile Operating Income (Loss) to</u>					
<u>Net Cash Provided (Used) by Operating Activities:</u>					
Depreciation	91,918	209,499	21,057	108,431	430,905
<u>Changes in Assets and Liabilities:</u>					
(Increase) decrease in accounts receivable	1,583	3,365	3,313	14,218	22,479
(Increase) decrease in due from other funds	79,319	42,637	(41,549)	--	80,407
(Increase) decrease in special assessments	278	185	--	--	463
(Increase) decrease in bond discount	--	--	--	21,987	21,987
(Increase) decrease in prepaid expenses	(718)	(299)	--	(3,505)	(4,522)
Increase (decrease) in accounts payable	--	--	--	(4,246)	(4,246)
Increase (decrease) in deferred revenue	(278)	(185)	--	--	(463)
Increase (decrease) in due to other funds	--	41,549	--	--	41,549
Increase (decrease) in security deposits	--	--	--	(2,080)	(2,080)
Increase (decrease) in interest payable	--	--	--	33	33
Total Adjustments	<u>172,102</u>	<u>296,751</u>	<u>(17,179)</u>	<u>134,838</u>	<u>586,512</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 67,734</u>	<u>\$ 280,143</u>	<u>\$ (18,640)</u>	<u>\$ 325,592</u>	<u>\$ 654,829</u>

See Notes to Financial Statements.

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CITY OF SANDSTONE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2014

CITY OF SANDSTONE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS

December 31, 2014

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 position 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, 2014

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, 2014

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 *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, 2014

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, 2014

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 unearned 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, 2014

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, 2014

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, 2014, are as follows:

	Bank Balance	Carrying Amount
Insured or collateralized by securities held by the City or its agent in the City's name	\$ 4,134,464	\$ 4,073,875
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	\$ 4,134,464	\$ 4,073,875

Net certificates of deposits are considered deposited.

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

B. Investments

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

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

CITY OF SANDSTONE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS

December 31, 2014

NOTE 2: CASH AND INVESTMENTS (Continued)

B. Investments (Continued)

Investment balances as of December 31, 2014, are as follows:

	Fair Value
Lakes States Federal Credit Union - CDs	\$ 22,875
Woodlands National Bank - CDs	500,000
Citigroup Smith Barney	1,401,013
Total	\$ 1,923,888

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

Cash and cash equivalents	\$ 2,715,601
Cash with fiscal agent	58,766
Investments	1,877,074
Restricted cash	1,519,998
Restricted investments	46,814
Total	\$ 6,218,253

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, 2014, 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, 2014

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, 2014, and descriptions are as follows:

	Restricted Cash	Prepaid Items
General fund	\$ 164,860	\$ 18,418
Special revenue funds	46,814	--
Capital projects	469,615	--
Enterprise funds	885,523	15,089
	\$ 1,566,812	\$ 33,507

NOTE 3: DUE FROM OTHER GOVERNMENTAL UNITS

There are no amounts due from other governmental units at December 31, 2014.

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, 2014 are as follows:

CITY OF SANDSTONE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS

December 31, 2014

NOTE 4: LONG-TERM DEBT (Continued)

<u>General Obligation Bonds:</u>	<u>Interest Rates</u>	<u>Maturity</u>	<u>Balance 12/31/14</u>	<u>Due Within One Year</u>
G.O. Refunding 2009 Series A	2.00-4.20%	2024	\$ 425,000	\$ 35,000
G.O. Refunding 2009 Series B	3.25%	2020	140,000	20,000
PFA G.O. Water Revenue Note	2.11%	2019	121,000	23,000
\$340,000 Lease Purchase	4.309-5.41%	2026	281,000	20,000
G.O. Refunding 2012 Series A	.5-2.6%	2023	330,000	45,000
Total General Obligation			<u>\$ 1,297,000</u>	<u>\$ 143,000</u>
 <u>Business-Type Activities:</u>				
EDA Refunding Bonds 2012	3-3.6%	2029	\$ 3,870,000	\$ 210,000
Total Business-Type Activities			<u>\$ 3,870,000</u>	<u>\$ 210,000</u>

The changes in the long-term debt of the City during 2014 are presented below:

<u>Governmental Activities</u>	<u>Balance 12/31/13</u>	<u>New Issues</u>	<u>Debt Retired</u>	<u>Balance 12/31/14</u>
G.O. Refunding 2009 Series A	\$ 475,000		\$ 50,000	\$ 425,000
G.O. Refunding 2009 Series B	215,000	--	75,000	140,000
PFA G.O. Water Revenue Note	144,000	--	23,000	121,000
\$340,000 Lease Purchase	299,000	--	18,000	281,000
G.O. Refunding 2012 Series A	375,000	--	45,000	330,000
Total G.O. Debt	<u>\$ 1,508,000</u>	<u>\$ --</u>	<u>\$ 211,000</u>	<u>\$ 1,297,000</u>
 <u>Business-Type Activities</u>				
EDA Refunding Bonds 2012	4,075,000	--	205,000	3,870,000
	<u>\$ 4,075,000</u>	<u>\$ --</u>	<u>\$ 205,000</u>	<u>\$ 3,870,000</u>

CITY OF SANDSTONE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE 4: LONG-TERM DEBT (Continued)

The annual requirement to amortize all long-term debt outstanding as of December 31, 2014 including interest payments for the next five years, are summarized below:

Year Ending December 31	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2015	143,000	39,614	210,000	120,412
2016	139,000	36,112	215,000	114,038
2017	145,000	32,307	220,000	107,512
2018	162,000	28,021	225,000	100,838
2019	143,000	23,568	235,000	93,938
2020-2024	520,000	55,857	1,270,000	358,403
2025-2029	45,000	1,913	1,495,000	134,813
Total	<u>\$ 1,297,000</u>	<u>\$ 217,392</u>	<u>\$ 3,870,000</u>	<u>\$ 1,029,954</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, 2014

NOTE 4: DEFERRED BENEFIT PENSION PLAN (Continued)

A. Plan Description (Continued)

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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. 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, 2014

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 2014. 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, 2014, 2013, and 2012, were \$20,305, \$19,400, and \$19,883, 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 water, sewer, storm water, and senior apartments. Segment information for the year ended December 31, 2014, is as follows:

	<u>Water</u>	<u>Sewer</u>	<u>Storm</u>	<u>Wild River</u>
Operating revenues	\$ 215,277	\$ 313,418	\$ 33,794	\$ 652,013
Expenses:				
Depreciation	\$ 91,918	\$ 209,499	\$ 21,057	\$ 108,431
Other	227,727	120,527	14,198	352,828
Total expenses	\$ 319,645	\$ 330,026	\$ 35,255	\$ 461,259
Nonoperating revenues (expenses)	\$ 1,210	\$ 35,185	\$ 411	\$ (126,638)
Net income (loss)	\$ (103,158)	\$ 18,577	\$ (1,050)	\$ 64,116
Total assets	\$ 2,358,684	\$ 7,412,629	\$ 557,190	\$ 2,973,725
Fund equity	\$ 2,355,251	\$ 7,368,791	\$ 557,190	\$ (996,485)
Capital expenditures - net	\$ 151,661	\$ 49,116	\$ --	\$ 11,791

CITY OF SANDSTONE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS

December 31, 2014

NOTE 6: DEFICIT FUND BALANCES

There was one fund with a deficit fund balance at the individual fund level at December 31, 2014.

Enterprise - Wild River Apartments	<u>\$ (996,485)</u>
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NOTE 7: APPROPRIATIONS/EXPENDITURES OVER REVENUES

Expenditures exceeded revenues in certain individual funds For the Year Ended December 31, 2014, as follows:

	<u>Expenditures</u>	<u>Revenues</u>	<u>Difference</u>
EDA Special Revenue	17,004	8,054	8,950
Wild River Capital Expense	26,615	5,953	20,662
Debt Service - 1999 PFA Water GO	26,038	29	26,009
Debt Service - \$655,000 GO Refunding 2009A	67,786	42,081	25,705
Debt Service - \$430,000 GO Improvement 2009B	80,769	27,009	53,760
Debt Servie - \$340,000 Lease Purchase	30,516	14	30,502
Tax Abatement	4,666	1,702	2,964

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>
Economic Development Authority	\$ 17,004	\$ 16,900	\$ 104
Capital Projects	247,424	140,800	106,624
EDA Wild River Capital	26,615	14,400	12,215
GO refunding Bond 2009A	67,786	66,875	911
\$340,000 Lease Purchase 2010	30,516	30,515	1
Tax Abatement	4,666	4,410	256

CITY OF SANDSTONE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS

December 31, 2014

NOTE 10: INTERFUND RECEIVABLES AND PAYABLES

The amounts due to and due from other funds at December 31, 2014, at the individual fund level are summarized below:

Funds	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General	164,945	--
Capital Projects:		
Capital Projects	--	307,193
Enterprise Fund:		
Sewer	433,797	41,549
Special Revenue:		
EDA CED Loan	127,300	--
EDA	<u> --</u>	<u>377,300</u>
Totals	<u>\$ 726,042</u>	<u>\$ 726,042</u>

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, 2014

NOTE 12: CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2014, are as follows:

<u>Governmental Activities</u>	Beginning Balances	Increase	Decrease	Ending Balances
Capital Assets:				
Land	\$ 624,403	\$ 3,465	\$ --	\$ 627,868
Infrastructure	7,350,459	16,950	--	7,367,409
Buildings and improvements	1,833,365	--	--	1,833,365
Equipment	1,136,670	24,412	9,000	1,152,082
Total Capital Assets	<u>10,944,897</u>	<u>44,827</u>	<u>9,000</u>	<u>10,980,724</u>
Less: Accumulated Depreciation for:				
Infrastructure	4,712,611	194,106	--	4,906,717
Buildings and improvements	1,068,315	47,151	--	1,115,466
Equipment	654,508	82,235	9,000	727,743
Total Accumulated Depreciation	<u>6,435,434</u>	<u>323,492</u>	<u>9,000</u>	<u>6,749,926</u>
Total Capital Assets, Net of Depreciation	<u>\$ 4,509,463</u>	<u>\$ (278,665)</u>	<u>\$ --</u>	<u>\$ 4,230,798</u>
<u>Business - Type Activities</u>				
Capital Assets:				
Land	\$ 157,015	\$ --	\$ --	\$ 157,015
Buildings and improvements	19,679,905	212,568	--	19,892,473
Equipment	66,733	--	--	66,733
Total Capital Assets	<u>19,903,653</u>	<u>212,568</u>	<u>--</u>	<u>20,116,221</u>
Less: Accumulated Depreciation for:				
Buildings and improvements	10,133,459	424,555	--	10,558,014
Equipment	38,575	6,350	--	44,925
Total Accumulated Depreciation	<u>10,172,034</u>	<u>430,905</u>	<u>--</u>	<u>10,602,939</u>
Business - Type Capital Assets, Net	<u>\$ 9,731,619</u>	<u>\$ (218,337)</u>	<u>\$ --</u>	<u>\$ 9,513,282</u>

CITY OF SANDSTONE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
 December 31, 2014

NOTE 12: CAPITAL ASSETS (Continued)

Depreciation expense was charged to function/programs as follows:

Governmental Activities	
General government	\$ 209,802
Public safety	73,156
Public works	30,991
Culture and recreation	8,395
Unallocated	1,148
Total Depreciation Expense - Governmental Activities	\$ 323,492
Business - Type Activities	
Water utility	91,918
Sewer utility	209,499
Storm Water	21,057
Wild River Apartments	108,431
Total Depreciation Expense - Business - Type Activities	\$ 430,905

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, 2014

CITY OF SANDSTONE, MINNESOTA
 Nonmajor Governmental Funds
COMBINING BALANCE SHEET
 December 31, 2014

	Special Revenue Funds			
	EDA CED Loan	Cemetery Permanent Care	EDA Wild River Capital Expense	EDA Wild River Reserve
ASSETS				
Cash & cash equivalents	\$ 175,610	\$ 91,639	\$ 70,210	\$ 147,531
Investments	--	22,875	--	--
Accounts receivable	35,708	--	--	--
Delinquent property tax	--	--	--	11,658
Special assessment	--	--	--	--
Special assessment deferred	--	--	--	--
Due from other funds	127,300	--	--	--
Bond Discount	--	--	--	--
Restricted cash	46,800	--	--	14
Total assets	\$ 385,418	\$ 114,514	\$ 70,210	\$ 159,203
 LIABILITIES AND FUND BALANCE				
<u>Liabilities:</u>				
Accounts payable	\$ --	\$ --	\$ --	\$ --
Due to other funds	--	--	--	--
Unearned revenue	--	--	--	11,658
Total liabilities	--	--	--	11,658
 <u>Fund Balance:</u>				
Reserved	385,418	114,514	70,210	147,545
Total fund balance	385,418	114,514	70,210	147,545
Total liabilities and fund balance	\$ 385,418	\$ 114,514	\$ 70,210	\$ 159,203

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	
\$ 484,990	\$ 3,219	\$ 59,251	\$ 68,009	
22,875	--	--	--	
35,708	--	--	--	
11,658	--	4,515	2,275	
--	--	--	1,794	
--	--	114	19,904	
127,300	--	--	--	
--	--	762	--	
46,814	--	--	--	
<u>729,345</u>	<u>\$ 3,219</u>	<u>\$ 64,642</u>	<u>\$ 91,982</u>	
\$ --	\$ --	\$ --	\$ --	
--	--	--	--	
<u>11,658</u>	<u>--</u>	<u>4,629</u>	<u>23,973</u>	
<u>11,658</u>	<u>--</u>	<u>4,629</u>	<u>23,973</u>	
717,687	3,219	60,013	68,009	
<u>717,687</u>	<u>3,219</u>	<u>60,013</u>	<u>68,009</u>	
<u>\$ 729,345</u>	<u>\$ 3,219</u>	<u>\$ 64,642</u>	<u>\$ 91,982</u>	

CITY OF SANDSTONE, MINNESOTA
 Nonmajor Governmental Funds
COMBINING BALANCE SHEET
 December 31, 2014

	Debt Service Funds		
	\$405,000 2012A G.O. Improvement & Refunding	\$340,000 Lease Purchase Public Works	Debt Service Total
ASSETS			
Cash & cash equivalents	\$ 94,543	\$ 226	\$ 225,248
Investments	--	--	--
Accounts receivable	--	--	--
Delinquent property tax	3,303	--	10,093
Special assessment	--	--	1,794
Special assessment deferred	51,411	--	71,429
Due from other funds	--	--	--
Bond discount	--	--	762
Restricted cash	--	--	--
Total Assets	\$ 149,257	\$ 226	\$ 309,326
			--
			--
LIABILITIES AND FUND BALANCE			
<u>Liabilities:</u>			
Accounts Payable	\$ --	\$ --	\$ --
Due to other funds	--	--	--
Deferred revenue	54,714	--	83,316
Total Liabilities	54,714	--	83,316
			--
<u>Fund Balance:</u>			
Reserved	94,543	226	226,010
Total Fund Balance	94,543	226	226,010
			--
Total Liabilities and Fund Balance	\$ 149,257	\$ 226	\$ 309,326

Capital Project Funds			
Tax Abatement	Medical and Business Park	Capital Projects Total	Total Nonmajor Governmental Funds
\$ 2	\$ 250,000	\$ 250,002	\$ 960,240
--	--	--	22,875
--	--	--	35,708
--	--	--	21,751
--	--	--	1,794
--	--	--	71,429
--	--	--	127,300
--	--	--	762
--	--	--	46,814
<u>\$ 2</u>	<u>\$ 250,000</u>	<u>\$ 250,002</u>	<u>\$ 1,288,673</u>
\$ --	\$ --	\$ -	\$ --
--	--	-	--
--	--	-	94,974
<u>--</u>	<u>--</u>	<u>-</u>	<u>94,974</u>
2	250,000	250,002	1,193,699
<u>2</u>	<u>250,000</u>	<u>250,002</u>	<u>1,193,699</u>
<u>\$ 2</u>	<u>\$ 250,000</u>	<u>\$ 250,002</u>	<u>\$ 1,288,673</u>

CITY OF SANDSTONE, MINNESOTA
 Nonmajor Governmental Funds
Combined Statement of Revenues, Expenditures and Changes in Fund Balance
 For the Year Ended December 31, 2014

	Special Revenue Funds			
	EDA CED Loan	Cemetery Permanent Care	EDA Wild River Capital Expense	EDA Wild River Reserve
REVENUES				
Property tax	\$ --	\$ --	\$ --	\$ 108,856
Interest	1,223	349	198	--
Special assessments	--	--	--	--
Miscellaneous	--	2,800	5,755	221
Total Revenues	<u>1,223</u>	<u>3,149</u>	<u>5,953</u>	<u>109,077</u>
EXPENDITURES				
Contractual services	--	--	--	--
Bond principal	--	--	--	--
Interest	--	--	--	--
Miscellaneous	--	--	26,615	--
Total Expenditures	<u>--</u>	<u>--</u>	<u>26,615</u>	<u>--</u>
Excess (deficiency) of revenue over (under) expenditures	<u>1,223</u>	<u>3,149</u>	<u>(20,662)</u>	<u>109,077</u>
OTHER FINANCING SOURCES (USES)				
Transfer in	--	--	--	--
Transfer out	--	--	--	(69,522)
Total Other Financing Source (uses)	<u>--</u>	<u>--</u>	<u>--</u>	<u>(69,522)</u>
Net change in fund balances	1,223	3,149	(20,662)	39,555
Fund Balances - beginning	<u>384,195</u>	<u>111,365</u>	<u>90,872</u>	<u>107,990</u>
Fund Balances - ending	<u>\$ 385,418</u>	<u>\$ 114,514</u>	<u>\$ 70,210</u>	<u>\$ 147,545</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
\$ 108,856	\$ --	\$ 42,014	\$ 22,381
1,770	29	67	94
--	--	--	4,534
8,776	--	--	--
<u>119,402</u>	<u>29</u>	<u>42,081</u>	<u>27,009</u>
--	--	--	--
--	23,000	50,000	75,000
--	3,038	16,868	5,769
26,615	--	918	--
<u>26,615</u>	<u>26,038</u>	<u>67,786</u>	<u>80,769</u>
92,787	(26,009)	(25,705)	(53,760)
--	26,000	12,000	25,000
(69,522)	--	--	--
<u>(69,522)</u>	<u>26,000</u>	<u>12,000</u>	<u>25,000</u>
23,265	(9)	(13,705)	(28,760)
<u>694,422</u>	<u>3,228</u>	<u>73,718</u>	<u>96,769</u>
<u>\$ 717,687</u>	<u>\$ 3,219</u>	<u>\$ 60,013</u>	<u>\$ 68,009</u>

CITY OF SANDSTONE, MINNESOTA
 Nonmajor Governmental Funds
Combined Statement of Revenues, Expenditures and Changes in Fund Balance
 For the Year Ended December 31, 2014

	Debt Service Funds		
	\$405,000 2012A G.O. Improvement & Refunding	\$340,000 Lease Purchase Public Works	Debt Service Total
REVENUES			
Property taxes	\$ 30,464	\$ --	\$ 94,859
Interest	134	14	338
Special assessments	20,573	--	25,107
Miscellaneous	--	--	--
Total Revenues	51,171	14	120,304
EXPENDITURES			
Contractual services	--	--	--
Bond principal	45,000	18,000	211,000
Interest	5,759	12,516	43,950
Miscellaneous	--	--	918
Total Expenditures	50,759	30,516	255,868
Excess (deficiency) of revenues over (under) expenditures	412	(30,502)	(135,564)
OTHER FINANCING SOURCES (USES)			
Transfer in	5,400	30,600	99,000
Transfer out	--	--	--
Total Other Financing Sources (uses)	5,400	30,600	99,000
Net change in fund balances	5,812	98	(36,564)
Fund balance - beginning	88,731	128	262,574
Fund balances - ending	\$ 94,543	\$ 226	\$ 226,010

Capital Project Funds			
Tax Abatement	Medical and Business Park	Capital Projects Total	Total Nonmajor Governmental Funds
\$ --	\$ --	\$ --	\$ 203,715
--	--	--	2,108
--	--	--	25,107
1,702	--	1,702	10,478
<u>1,702</u>	<u>--</u>	<u>1,702</u>	<u>241,408</u>
4,666	--	4,666	4,666
--	--	--	211,000
--	--	--	43,950
--	--	--	27,533
<u>4,666</u>	<u>--</u>	<u>4,666</u>	<u>287,149</u>
<u>(2,964)</u>	<u>--</u>	<u>(2,964)</u>	<u>(45,741)</u>
2,925	250,000	252,925	351,925
--	--	--	(69,522)
<u>2,925</u>	<u>250,000</u>	<u>252,925</u>	<u>282,403</u>
(39)	250,000	249,961	236,662
<u>41</u>	<u>--</u>	<u>41</u>	<u>957,037</u>
<u>\$ 2</u>	<u>\$ 250,000</u>	<u>\$ 250,002</u>	<u>\$ 1,193,699</u>

EDA Special Revenue Fund

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

For the Year Ended December 31, 2014

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Property taxes	\$ 7,390	\$ 7,761	\$ 371
Interest earned	300	293	(7)
Total Revenues	<u>7,690</u>	<u>8,054</u>	<u>364</u>
EXPENDITURES			
Miscellaneous	1,300	1,500	200
Property acquisition	<u>15,600</u>	<u>15,504</u>	<u>(96)</u>
Total Expenditures	<u>16,900</u>	<u>17,004</u>	<u>104</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(9,210)</u>	<u>(8,950)</u>	<u>260</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	<u>--</u>	<u>--</u>	<u>--</u>
Total other financing sources (uses)	<u>--</u>	<u>--</u>	<u>--</u>
Net change in fund balances	(9,210)	(8,950)	260
Fund Balance - beginning	<u>16,933</u>	<u>16,933</u>	<u>--</u>
Fund Balance - ending	<u>\$ 7,723</u>	<u>\$ 7,983</u>	<u>\$ 260</u>

Capital Projects Fund

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

For the Year Ended December 31, 2014

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Property taxes	\$ 222,000	\$ 223,025	\$ 1,025
Special Assessments	\$ --	\$ 273	
Interest	700	1,374	674
Miscellaneous	--	77,327	77,327
Total Revenues	<u>222,700</u>	<u>301,999</u>	<u>79,299</u>
EXPENDITURES			
Capital expenditures	140,800	247,424	106,624
Total Expenditures	<u>140,800</u>	<u>247,424</u>	<u>106,624</u>
Excess (deficiency) of revenues (over (under) expenditures)	<u>81,900</u>	<u>54,575</u>	<u>(27,325)</u>
OTHER FINANCING RESOURCES (USES)			
Transfer in	367,280	111,150	(256,130)
Total other financing sources (uses)	<u>367,280</u>	<u>111,150</u>	<u>(256,130)</u>
Net change in fund balances	449,180	165,725	(283,455)
Fund balances - beginning	<u>224,546</u>	<u>224,546</u>	<u>--</u>
Fund balances - ending	<u>\$ 673,726</u>	<u>\$ 390,271</u>	<u>\$ (283,455)</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, 2014

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Interest earned	\$ 600	\$ 1,223	\$ 623
Total Revenues	<u>600</u>	<u>1,223</u>	<u>623</u>
EXPENDITURES			
Expenditures	--	--	--
Total Expenditures	<u>--</u>	<u>--</u>	<u>--</u>
Excess (deficiency) of revenues over (under) expenditures	<u>600</u>	<u>1,223</u>	<u>623</u>
Net change in fund balances	600	1,223	623
Fund Balance - beginning	<u>384,195</u>	<u>384,195</u>	<u>--</u>
Fund Balance - ending	<u><u>\$ 384,795</u></u>	<u><u>\$ 385,418</u></u>	<u><u>\$ 623</u></u>

CITY OF SANDSTONE, MINNESOTA
Cemetery Permanent Care Special Revenue Fund

Schedule 6

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
For the Year Ended December 31, 2014

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Interest earned	\$ 600	\$ 349	\$ (251)
Miscellaneous	2,100	2,800	700
Total Revenues	<u>2,700</u>	<u>3,149</u>	<u>449</u>
EXPENDITURES			
Expenditures	<u>--</u>	<u>--</u>	<u>--</u>
Total Expenditures	<u>--</u>	<u>--</u>	<u>--</u>
Excess (deficiency) of revenues over (under) expenditures	2,700	3,149	449
Fund Balance - beginning	<u>111,365</u>	<u>111,365</u>	<u>--</u>
Fund Balance - ending	<u>\$ 114,065</u>	<u>\$ 114,514</u>	<u>\$ 449</u>

EDA Wild River Capital Expenditure Special Revenue Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
 For the Year Ended December 31, 2014

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Interest earned	\$ 200	\$ 198	\$ (2)
Miscellaneous	--	5,755	5,755
Total Revenues	<u>200</u>	<u>5,953</u>	<u>5,753</u>
EXPENDITURES			
Miscellaneous	<u>14,400</u>	<u>26,615</u>	<u>12,215</u>
Total Expenditures	<u>14,400</u>	<u>26,615</u>	<u>12,215</u>
Excess (deficiency) of revenues over (under) expenditures	(14,200)	(20,662)	(6,462)
Fund Balance - beginning	<u>90,872</u>	<u>90,872</u>	<u>--</u>
Fund Balance - ending	<u>\$ 76,672</u>	<u>\$ 70,210</u>	<u>\$ (6,462)</u>

EDA Wild River Reserve Fund

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

For the Year Ended December 31, 2014

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Property tax	\$ 100,000	\$ 108,856	\$ 8,856
Miscellaneous	--	221	221
Total Revenues	<u>100,000</u>	<u>109,077</u>	<u>9,077</u>
EXPENDITURES			
Expenditures	<u>--</u>	<u>--</u>	<u>--</u>
Total Expenditures	<u>--</u>	<u>--</u>	<u>--</u>
Excess (deficiency) of revenues over (under) expenditures	<u>100,000</u>	<u>109,077</u>	<u>9,077</u>
OTHER FINANCING SOURCES (USES)			
Transfers (out)	<u>--</u>	<u>(69,522)</u>	<u>(69,522)</u>
Total other financing sources (uses)	<u>--</u>	<u>(69,522)</u>	<u>(69,522)</u>
Net change in fund balances	100,000	39,555	(60,445)
Fund Balance - beginning	<u>107,990</u>	<u>107,990</u>	<u>--</u>
Fund Balance - ending	<u>\$ 207,990</u>	<u>\$ 147,545</u>	<u>\$ (60,445)</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, 2014

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Property taxes	\$ 38,725	\$ 42,014	\$ 3,289
Interest	--	67	67
Total Revenues	<u>38,725</u>	<u>42,081</u>	<u>3,356</u>
EXPENDITURES			
Bond principal	50,000	50,000	--
Interest	16,875	16,868	(7)
Fiscal agent fees	--	918	918
Total Expenditures	<u>66,875</u>	<u>67,786</u>	<u>911</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(28,150)</u>	<u>(25,705)</u>	<u>2,445</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	12,000	12,000	--
Total other financing sources (uses)	<u>12,000</u>	<u>12,000</u>	<u>--</u>
Net change in fund balances	(16,150)	(13,705)	2,445
Fund Balance - beginning	<u>73,718</u>	<u>73,718</u>	<u>--</u>
Fund Balance - ending	<u>\$ 57,568</u>	<u>\$ 60,013</u>	<u>\$ 2,445</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, 2014

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Property tax	\$ 19,518	\$ 22,381	\$ 2,863
Special Assessments	18,645	4,534	(14,111)
Interest	--	94	94
Total Revenues	<u>38,163</u>	<u>27,009</u>	<u>(11,154)</u>
EXPENDITURES			
Bond principle	75,000	75,000	--
Interest	8,207	5,769	(2,438)
Total Expenditures	<u>83,207</u>	<u>80,769</u>	<u>(2,438)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(45,044)</u>	<u>(53,760)</u>	<u>(8,716)</u>
OTHER FINANCING SOURCES (USES)			
Transfer in	<u>25,000</u>	<u>25,000</u>	<u>--</u>
Total other financing sources (uses)	<u>25,000</u>	<u>25,000</u>	<u>--</u>
Net change in fund balances	(20,044)	(28,760)	(8,716)
Fund Balance - beginning	<u>96,769</u>	<u>96,769</u>	<u>--</u>
Fund Balance - ending	<u>\$ 76,725</u>	<u>\$ 68,009</u>	<u>\$ (8,716)</u>

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

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

For the Year Ended December 31, 2014

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Property taxes	\$ 28,335	\$ 30,464	\$ 2,129
Special assessments	18,705	20,573	1,868
Interest	--	134	134
Total Revenues	<u>47,040</u>	<u>51,171</u>	<u>4,131</u>
EXPENDITURES			
Bond principal	50,590	45,000	(5,590)
Interest	250	5,759	5,509
Agent fees	--	--	--
Total Expenditures	<u>50,840</u>	<u>50,759</u>	<u>(81)</u>
Excess (deficiency) of revenues over (under) expenditures	(3,800)	412	4,212
OTHER FINANCING SOURCES (USES)			
Transfer	5,400	5,400	--
Total other financing sources (uses)	<u>5,400</u>	<u>5,400</u>	<u>--</u>
Net change in fund balances	1,600	5,812	4,212
Fund Balance - beginning	<u>88,731</u>	<u>88,731</u>	<u>--</u>
Fund Balance - ending	<u>\$ 90,331</u>	<u>\$ 94,543</u>	<u>\$ 4,212</u>

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

Schedule 12

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
 For the Year Ended December 31, 2014

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Interest	\$ --	\$ 29	\$ 29
Total Revenues	<u>--</u>	<u>29</u>	<u>29</u>
EXPENDITURES			
Bond principal	23,000	23,000	--
Interest	<u>3,050</u>	<u>3,038</u>	<u>(12)</u>
Total Expenditures	<u>26,050</u>	<u>26,038</u>	<u>(12)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(26,050)</u>	<u>(26,009)</u>	<u>41</u>
OTHER FINANCING SOURCES (USES)			
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	(50)	(9)	41
Fund Balance - beginning	<u>3,228</u>	<u>3,228</u>	<u>--</u>
Fund Balance - ending	<u>\$ 3,178</u>	<u>\$ 3,219</u>	<u>\$ 41</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, 2014

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Interest	\$ --	\$ 14	\$ (14)
Total Revenues	<u>--</u>	<u>14</u>	<u>(14)</u>
EXPENDITURES			
Bond principal	18,000	18,000	--
Interest	12,515	12,516	(1)
Total Expenditures	<u>30,515</u>	<u>30,516</u>	<u>(1)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(30,515)</u>	<u>(30,502)</u>	<u>(13)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	30,600	30,600	--
Total other financing sources (uses)	<u>30,600</u>	<u>30,600</u>	<u>--</u>
Net change in fund balances	85	98	(13)
Fund Balance - beginning	<u>128</u>	<u>128</u>	<u>--</u>
Fund Balance - ending	<u>\$ 213</u>	<u>\$ 226</u>	<u>\$ (13)</u>

CITY OF SANDSTONE, MINNESOTA
Tax Abatement Financing Capital Project Fund

Schedule 14

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
For the Year Ended December 31, 2014

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Miscellaneous	--	1,702	1,702
Total Revenues	--	1,702	1,702
EXPENDITURES			
Contractual Services	4,410	4,666	256
Total Expenditures	4,410	4,666	256
Excess (deficiency) of revenues over (under) expenditures	(4,410)	(2,964)	1,446
OTHER FINANCING SOURCES (USES)			
Transfers in	--	2,925	(2,925)
Total other financing sources (uses)	--	2,925	(2,925)
Net change in fund balances	(4,410)	(39)	(1,479)
Fund Balance - beginning	41	41	--
Fund Balance - ending	\$ 41	\$ 2	\$ --

Medical and Business Park Fund

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

For the Year Ended December 31, 2014

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Miscellaneous	\$ --	\$ --	\$ --
Total Revenues	<u>--</u>	<u>--</u>	<u>--</u>
EXPENDITURES			
Expense	--	--	--
Total Expenditures	<u>--</u>	<u>--</u>	<u>--</u>
Excess (deficiency) of revenues over (under) expenditures	--	--	--
OTHER FINANCING SOURCES (USES)			
Transfers in	250,000	250,000	--
Total other financing sources (uses)	<u>250,000</u>	<u>250,000</u>	<u>--</u>
Net change in fund balances	250,000	250,000	--
Fund Balance - beginning	<u>--</u>	<u>--</u>	<u>--</u>
Fund Balance - ending	<u>\$ 250,000</u>	<u>\$ 250,000</u>	<u>\$ --</u>

CITY OF SANDSTONE, MINNESOTA
SUPPLEMENTARY FINANCIAL INFORMATION
December 31, 2014

CITY OF SANDSTONE, MINNESOTA
 \$655,000 General Obligation Refunding Bonds, Series 2009A
STATEMENT OF BOND AND INTEREST MATURITIES
 December 31, 2014

Table 1

<u>Maturity</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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>\$ 425,000.00</u>	<u>\$ 89,393.75</u>	<u>\$ 514,393.75</u>

CITY OF SANDSTONE, MINNESOTA
 \$430,000 General Obligation Improvement Bonds, Series 2009B
STATEMENT OF BOND AND INTEREST MATURITIES
 December 31, 2014

Table 2

<u>Maturity</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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>\$ 140,000.00</u>	<u>\$ 14,300.00</u>	<u>\$ 154,300.00</u>

CITY OF SANDSTONE, MINNESOTA
 \$405,000 General Obligation Improvement & Refunding Bond, Series 2012A
STATEMENT OF BOND AND INTEREST MATURITIES
 December 31, 2014

Table 3

<u>Maturity</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	<u>\$ 330,000.00</u>	<u>\$ 28,880.00</u>	<u>\$ 358,880.00</u>

CITY OF SANDSTONE, MINNESOTA
 \$401,500 General Obligation Water Revenue Note
STATEMENT OF BOND AND INTEREST MATURITIES
 December 31, 2014

Table 4

<u>Maturity</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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>\$ 121,000.00</u>	<u>\$ 7,764.80</u>	<u>\$ 128,764.80</u>

CITY OF SANDSTONE, MINNESOTA
 \$4,275,000 Economic Development Authority Housing and Development
 Gross Revenue Refunding Bonds Series 2012 A & B
STATEMENT OF BOND AND INTEREST MATURITIES
 December 31, 2014

Table 5

Maturity	Interest Rate	Principal	Interest	Total
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>\$ 3,870,000.00</u>	<u>\$ 1,029,953.75</u>	<u>\$ 4,899,953.75</u>

CITY OF SANDSTONE, MINNESOTA
 \$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, 2014

Table 6

Maturity	Interest Rate	Principal	Interest	Total
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>\$ 281,000.00</u>	<u>\$ 77,052.50</u>	<u>\$ 358,052.50</u>

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CITY OF SANDSTONE, MINNESOTA
OTHER REPORTS
December 31, 2014

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

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

Honorable Mayor and City Council
City of Sandstone, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, 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., the 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 ending December 31, 2014, and the related notes to the financial statements, which collectively comprise the City of Sandstone, Minnesota's basic financial statements, and have issued our report thereon dated May 20, 2015.

Internal Control over Financial Reporting

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

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. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance,

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 material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. 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.



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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.

Purpose of this Report

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



Althoff & Nordquist, LLC
Pine City, Minnesota
May 20, 2015

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