

CITY OF SANDSTONE, MINNESOTA
BASIC FINANCIAL STATEMENTS
For the Year Ended December 31, 2015

CITY OF SANDSTONE, MINNESOTA

Table of Contents

	REFERENCE	PAGE
INTRODUCTORY SECTION		
Organization		3
FINANCIAL SECTION		
Independent Auditors' Report		7
Management's Discussion and Analysis		11
Basis Financial Statements		
Government-wide Financial Statements		
Statement of Net Position	Statement 1	22
Statement of Activities	Statement 2	24
Fund Financial Statements		
Balance Sheet - Governmental Funds	Statement 3	28
Reconciliation of Net Position in the Government-Wide Financial Statement and Fund Balances in the Fund Financial Basis Financial Statements	Statement 4	30
Statement of Revenues, Expenditures, and Changes in Net Position - Governmental Funds	Statement 5	31
Reconciliation of the Statement of Revenues, Expenditures and Changes in Net Position of Governmental Funds to the Statement of Activities	Statement 6	34
Statement of Revenues, Expenditures, and Changes in Fund Balances - General Fund - Budget to Actual	Statement 7	35
Statement of Revenues, Expenditures, and Changes in Fund Balances - General Fund - Budget to Actual	Statement 8	37
Statement of Revenues, Expenditures, and Changes in Fund Balances - General Fund - Budget to Actual	Statement 9	38
Statement of Revenues, Expenditures, and Changes in Fund Balances - General Fund - Budget to Actual	Statement 10	39
Statement of Revenues, Expenditures, and Changes in Fund Balances - General Fund - Budget to Actual	Statement 11	40
Statement of Net Position - Proprietary Funds	Statement 12	41
Statement of Revenues, Expenditures, and Changes in Fund Net Position - Proprietary Funds	Statement 13	42
Statement of Cash Flows - Proprietary Funds	Statement 14	43
Notes to Financial Statements		46
Required Supplementary Information Other Than MD&A (Unaudited)		
Schedule of City's Proportionate Share of Net Pension Liability	Schedule 1	68
Combining and Individual Fund Statements and Schedules-Nonmajor Funds		
Combining Balance Sheet - Nonmajor Governmental Funds	Schedule 2	70
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds	Schedule 3	74

CITY OF SANDSTONE, MINNESOTA

Table of Contents

FINANCIAL SECTION (Continued)	REFERENCE	PAGE
Combining and Individual Fund Statements and Schedules-Nonmajor Funds	(Continued)	
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - Cemetery Permanent Care Special Revenue Fund	Schedule 4	78
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - EDA Wild River Capital Expenditure	Schedule 5	79
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - EDA Wild River Reserve Fund	Schedule 6	80
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - \$655K G.O. Refunding Bonds, Series 2009A	Schedule 7	81
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - \$430K G.O. Improvement Bonds, Series 2009B	Schedule 8	82
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - \$405K General Obligation Improvement and Refunding Bonds, Series 2012A	Schedule 9	83
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - 1999 PFA Water G.O. Bond Debt Service Fund	Schedule 10	84
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - Lease Purchase - Public Works Property Fund	Schedule 11	85
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - G.O. Temporary Improvement 2015A	Schedule 12	86
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - Tax Abatement Financing Capital Project Fund	Schedule 13	87
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - EDA Public Works Federal Grant Fund	Schedule 14	88
 Supplementary Financial Information		
Bond Schedule - \$655,000 G.O. Refunding Bonds, Series 2009A	Table 1	90
Bond Schedule - \$430,000 G.O. Improvement Bonds, Series 2009B	Table 2	91
Bond Schedule - \$405,000 GO Improvement & Refunding, Series 2012A	Table 3	92
Bond Schedule - \$401,500 G.O. Water Revenue Note	Table 4	93
Bond Schedule - \$4,275,000 EDA Gross Revenue Refunding Bonds, Series 2012 A&B	Table 5	94
Bond Schedule - \$340,000 Lease Purchase Public Works Building & Land	Table 6	95
Bond Schedule - \$1.2 G.O. Temporary Improvement Bond, Series 2015A	Table 7	96
 Other Reports		
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		99

CITY OF SANDSTONE, MINNESOTA
INTRODUCTORY SECTION
December 31, 2015

This Page Intentionally Left Blank.

CITY OF SANDSTONE, MINNESOTA

ORGANIZATION

December 31, 2015

City Council

Carl Steffen Mayor
Phillip Kester Deputy Mayor
Tim Franklin Councilperson
Pete Spartz Councilperson
Brandon Devlin Councilperson

Administration

Sam Griffith City Administrator
Lois Newey Finance Officer

This Page Intentionally Left Blank.

CITY OF SANDSTONE, MINNESOTA
FINANCIAL SECTION
December 31, 2015

This Page Intentionally Left Blank.

Althoff and Nordquist, LLC

CERTIFIED PUBLIC ACCOUNTANTS
www.althoffandnordquist.com

505 - SECOND STREET SE
PINE CITY, MINNESOTA 55063
TELEPHONE: 320-629-6185

124 EAST FOREST
MORA, MINNESOTA 55051
TELEPHONE: 320-679-4846

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

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

INDEPENDENT AUDITOR'S REPORT

Members of the City Council
City of Sandstone, Minnesota

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Sandstone, Minnesota, as of and for the year ended December 31, 2015, 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, 2015, 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.



The CPA. Never Underestimate The Value.®

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 34 through 39 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 and opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Sandstone, Minnesota's financial statements as a whole. The introductory section, combining and individual nonmajor fund statements and schedules and supplementary financial information are presented for purpose of additional analysis and are not a required part of the financial statements.

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

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have issued our report dated June 7, 2016 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
June 7, 2016

CITY OF SANDSTONE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2015

This Page Intentionally Left Blank.

CITY OF SANDSTONE, MINNESOTA
BASIC FINANCIAL STATEMENTS
For the Year Ended December 31, 2015

STATEMENT OF NET POSITION

December 31, 2015

(With Comparative Amounts for December 31, 2014)

	Governmental Activities	Business - Type Activities	Totals	
			2015	2014
ASSETS				
Cash & cash equivalents	\$ 3,422,763	\$ 551,002	\$ 3,973,765	\$ 2,453,764
Cash with Fiscal Agent	--	51,618	51,618	58,766
Investments	23,024	2,228,531	2,251,555	2,138,911
Accounts receivable	8,062	24,582	32,644	72,177
Delinquent property tax	41,298	--	41,298	43,075
Special assessments receivable	2,074	11,246	13,320	7,834
Special assessments deferred	65,309	--	65,309	71,429
Due from other funds	286,748	120,118	406,866	726,742
Bond discount and refunding	294	159,191	159,485	181,177
Prepaid expenses	18,482	15,046	33,528	33,507
Restricted cash	31,200	646,540	677,740	1,519,998
Restricted investments	591,194	--	591,194	46,814
Capital assets, net	4,058,022	9,244,074	13,302,096	13,744,080
Total assets	<u>8,548,470</u>	<u>13,051,948</u>	<u>21,600,418</u>	<u>21,098,274</u>
Deferred Outflow of Resources				
Related to Pensions	<u>23,549</u>	<u>--</u>	<u>23,549</u>	<u>--</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 8,572,019</u>	<u>\$ 13,051,948</u>	<u>\$ 21,623,967</u>	<u>\$ 21,098,274</u>
LIABILITIES				
Accounts payable	\$ 991	\$ 9,300	\$ 10,291	\$ 6,249
Due to other funds	406,866	--	406,866	726,042
Accrued expenses	32,178	--	32,178	28,550
Unearned revenue	--	11,246	11,246	5,722
Security deposits	--	38,055	38,055	41,595
Interest payable	50,762	1,285	52,047	38,286
Pension payable	248,761	--	248,761	--
Non current liabilities:				
Due within one year	139,000	48,859	187,859	194,484
Due in more than one year	2,215,000	3,660,000	5,875,000	5,024,000
Total liabilities	<u>3,093,558</u>	<u>3,768,745</u>	<u>6,862,303</u>	<u>6,064,928</u>
Deferred Inflow of Resources				
Related to Pensions	<u>30,158</u>	<u>--</u>	<u>30,158</u>	<u>--</u>
NET POSITION				
Net investment in Capital Assets	\$ 1,704,022	\$ 5,535,215	\$ 7,239,237	\$ 8,525,596
Nonspendable	39,856	174,237	214,093	33,507
Restricted	1,767,595	646,540	2,414,135	2,969,401
Committed	--	--	--	--
Assigned	1,575,911	--	1,575,911	--
Unassigned	360,919	2,927,211	3,288,130	3,504,842
Total Net Position	<u>\$ 5,448,303</u>	<u>\$ 9,283,203</u>	<u>\$ 14,731,506</u>	<u>\$ 15,033,346</u>

See Notes to Financial Statements.

This Page Intentionally Left Blank.

CITY OF SANDSTONE, MINNESOTA
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2015
(With Comparative Amounts for the Year Ended December 31, 2014)

<u>Functions/Programs</u>	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
General government	\$ 501,005	\$ 87,058	\$ 1,090,889	\$ --
Public safety	304,700	47,306	--	--
Public works	224,613	--	--	--
Culture and recreation	59,041	21,226	--	--
Debt service	45,463	--	--	--
Capital expenditure	764,146	--	--	--
Unallocated	87,069	138,277	--	--
Total Governmental Activities	1,986,037	293,867	1,090,889	--
Business - Type Activities:				
Water utility	238,315	224,353	--	--
Sewer utility	337,064	308,928	--	--
Storm water	28,561	41,299	--	--
Wild River apartment	585,301	656,049	--	--
Total Business - Type Activities	1,189,241	1,230,629	--	--
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	Totals	
		2015	2014
\$ 676,942	\$ --	\$ 676,942	\$ 612,199
(257,394)	--	(257,394)	(272,879)
(224,613)	--	(224,613)	(285,911)
(37,815)	--	(37,815)	(7,110)
(45,463)	--	(45,463)	(44,867)
(764,146)	--	(764,146)	(262,928)
51,208	--	51,208	(31,773)
<u>(601,281)</u>	<u>--</u>	<u>(601,281)</u>	<u>(293,269)</u>
--	(13,962)	(13,962)	(104,368)
--	(28,136)	(28,136)	(16,608)
--	12,738	12,738	(1,461)
--	70,748	70,748	64,116
--	--	--	--
<u>--</u>	<u>41,388</u>	<u>41,388</u>	<u>(58,321)</u>
\$ 452,828	\$ --	\$ 452,828	\$ 467,520
--	--	--	--
--	--	--	--
11,689	42,503	54,192	49,390
85,435	(85,435)	--	--
<u>549,952</u>	<u>(42,932)</u>	<u>507,020</u>	<u>516,910</u>
(51,329)	(1,544)	(52,873)	165,320
(248,967)	--	(248,967)	--
<u>5,748,599</u>	<u>9,284,747</u>	<u>15,033,346</u>	<u>14,868,026</u>
<u>\$ 5,448,303</u>	<u>\$ 9,283,203</u>	<u>\$ 14,731,506</u>	<u>\$ 15,033,346</u>

This Page Intentionally Left Blank.

CITY OF SANDSTONE, MINNESOTA
FUND FINANCIAL STATEMENTS
December 31, 2015

CITY OF SANDSTONE, MINNESOTA
Governmental Funds
BALANCE SHEET
December 31, 2015

	General Fund	Capital Project Fund	EDA Fund	EDA CED Loan Special Revenue Fund
ASSETS				
Cash & cash equivalents	\$ 994,150	\$ 259,320	\$ 151,581	\$ 176,971
Investments	--	--	--	--
Accounts receivable	1,667	--	--	5,391
Delinquent property tax	1,622	19,526	13	--
Special assessments	2,072	2	--	--
Special assessments deferred	--	--	--	--
Due from other funds	142,796	--	--	142,900
Bond discount	--	--	--	--
Prepaid expense	18,482	--	--	--
Restricted investments	--	478,575	--	--
Restricted cash	112,619	--	--	31,200
Total Assets	<u>\$ 1,273,408</u>	<u>\$ 757,423</u>	<u>\$ 151,594</u>	<u>\$ 356,462</u>
LIABILITIES & FUND BALANCE				
<u>Liabilities:</u>				
Cash in bank (overdraft)	\$ --	\$ --	\$ --	\$ --
Accounts payable	991	--	--	--
Accrued expenses	32,178	--	--	--
Due to other funds	--	262,914	142,900	--
Unearned revenue	3,694	19,527	13	--
Total Liabilities	<u>36,863</u>	<u>282,441</u>	<u>142,913</u>	<u>--</u>
<u>Fund Balance:</u>				
Nonspendable	39,856	--	--	--
Restricted	72,762	478,575	--	--
Committed	--	--	--	--
Assigned	561,963	--	8,681	356,462
Unassigned	561,964	(3,593)	--	--
Total fund balance	<u>1,236,545</u>	<u>474,982</u>	<u>8,681</u>	<u>356,462</u>
Total liabilities and fund balances	<u>\$ 1,273,408</u>	<u>\$ 757,423</u>	<u>\$ 151,594</u>	<u>\$ 356,462</u>

Medical and Business Park Fund	Nonmajor Governmental Funds	Total Governmental Funds
\$ 1,216,258	\$ 624,483	\$ 3,422,763
--	23,024	23,024
--	1,004	8,062
--	20,137	41,298
--	--	2,074
--	65,309	65,309
--	1,052	286,748
--	294	294
--	--	18,482
--	--	478,575
--	--	143,819
<u>\$ 1,216,258</u>	<u>\$ 735,303</u>	<u>\$ 4,490,448</u>
\$ --	\$ --	--
--	--	991
--	--	32,178
--	1,052	406,866
--	85,446	108,680
<u>--</u>	<u>86,498</u>	<u>548,715</u>
--	--	39,856
1,216,258	--	1,767,595
--	--	--
--	648,805	1,575,911
--	--	558,371
<u>1,216,258</u>	<u>648,805</u>	<u>3,941,733</u>
<u>\$ 1,216,258</u>	<u>\$ 735,303</u>	<u>\$ 4,490,448</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, 2015
(With Comparative Amounts for December 31, 2014)

Statement 4

	2015	2014
Amounts reported for governmental activities in the Statements of Net Position are different because:		
Total Governmental Fund Balance	\$ 3,941,733	\$ 2,735,098
<p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.</p>		
Governmental Capital Assets	11,128,685	10,980,724
Less: Accumulated Depreciation	(7,070,663)	(6,749,926)
	4,058,022	4,230,798
<p>Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.</p>		
Deferred Revenue	108,680	116,617
<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	(2,354,000)	(1,297,000)
Bond Interest Payable	(50,762)	(36,914)
	(2,404,762)	(1,333,914)
Pension Related Items for GASB #68		
Deferred outflow of resources	23,549	--
Deferred inflow of resources	(30,158)	--
Net Pension Liability	(248,761)	--
	(255,370)	--
Net Position of Governmental Activities	\$ 5,448,303	\$ 5,748,599

See Notes to Financial Statements.

This Page Intentionally Left Blank.

CITY OF SANDSTONE, MINNESOTA
Governmental Funds
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
For the Year Ended December 31, 2015

	General Fund	Capital Project Fund	EDA Fund	EDA CED Loan Special Revenue Fund
REVENUES				
Property taxes	\$ 3,801	\$ 235,539	\$ 17,001	\$ --
Special assessments	1,229	150	--	--
Licenses & permits	47,306	--	--	--
Intergovernmental revenue	1,087,423	--	--	--
Charges for services	87,058	--	--	--
Court fines	3,466	--	--	--
Interest	8,526	1,435	321	462
Rent	21,226	--	--	--
Miscellaneous	11,317	19,829	44,015	--
Total Revenues	<u>1,271,352</u>	<u>256,953</u>	<u>61,337</u>	<u>462</u>
EXPENDITURES				
General government	415,183	--	--	--
Public safety	211,058	--	--	--
Public works	197,195	--	--	--
Culture & recreation	21,851	--	--	29,418
Miscellaneous	75,855	--	1,120	--
Debt service	--	--	--	--
Capital expenditures	--	218,535	15,504	--
Total Expenditures	<u>921,142</u>	<u>218,535</u>	<u>16,624</u>	<u>29,418</u>
Excess (deficiency) of revenues over (under) expenditures	350,210	38,418	44,713	(28,956)
OTHER FINANCING RESOURCES (USES)				
Bond proceeds	--	--	--	--
Transfer in	--	126,293	--	--
Transfer (out)	(256,810)	(80,000)	(44,015)	--
Total other financing sources (uses)	<u>(256,810)</u>	<u>46,293</u>	<u>(44,015)</u>	<u>--</u>
Net change in fund balances	93,400	84,711	698	(28,956)
Fund balances - beginning	<u>1,143,145</u>	<u>390,271</u>	<u>7,983</u>	<u>385,418</u>
Fund balances - ending	<u>\$ 1,236,545</u>	<u>\$ 474,982</u>	<u>\$ 8,681</u>	<u>\$ 356,462</u>

See Notes to Financial Statements.

Medical and Business Park Fund	Nonmajor Governmental Funds	Total Governmental Funds
\$ --	\$ 173,066	\$ 429,407
--	22,042	23,421
--	--	47,306
--	--	1,087,423
--	--	87,058
--	--	3,466
--	945	11,689
--	--	21,226
--	63,116	138,277
<u>--</u>	<u>259,169</u>	<u>1,849,273</u>
--	--	415,183
--	--	211,058
--	--	197,195
--	--	51,269
--	6,947	83,922
--	181,650	181,650
530,107	--	764,146
<u>530,107</u>	<u>188,597</u>	<u>1,904,423</u>
(530,107)	70,572	(55,150)
1,176,350	--	1,176,350
320,015	78,168	524,476
--	(58,216)	(439,041)
<u>1,496,365</u>	<u>19,952</u>	<u>1,261,785</u>
966,258	90,524	1,206,635
250,000	558,281	2,735,098
<u>\$ 1,216,258</u>	<u>\$ 648,805</u>	<u>\$ 3,941,733</u>

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

Statement 6

December 31, 2015

(With Comparative Amounts for December 31, 2014)

	2015	2014
Amounts reported for governmental activities in the Statements of Activities are different because:		
Net Changes in Fund Balance - Total Governmental Funds	\$ 1,206,635	\$ 285,054
Governmental funds reported capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Acquisition of assets	147,961	44,827
Depreciation expense	(320,737)	(323,492)
	(172,776)	(278,665)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Unearned revenue	6,606	(38,711)
Pension Related Items for GASB #68		
Pension Expense	(20,946)	--
Prior period adjustment - pension liability	(248,967)	--
State Aid (Pensions)	--	--
	(269,913)	--
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		
Proceeds from issuance of bonds	(1,200,000)	--
Principal retirement on long-term debt	143,000	211,000
Accrued interest on bonds payable	(13,848)	7,035
	(1,070,848)	218,035
Change in net position of Governmental Activities	\$ (300,296)	\$ 185,713

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, 2015

	Original and Amended Budget Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Taxes	\$ 3,000	\$ 3,801	\$ 801
Special assessments	--	1,229	1,229
Licenses & permits	27,450	47,306	19,856
Intergovernmental revenue	1,086,282	1,087,423	1,141
Charges for services	78,400	87,058	8,658
Court fines	2,000	3,466	1,466
Miscellaneous	36,868	41,069	4,201
Total Revenues	<u>1,234,000</u>	<u>1,271,352</u>	<u>37,352</u>
EXPENDITURES			
General government:			
Mayor & council	3,150	3,912	762
Executive	200,900	200,809	(91)
Elections & voter registration	500	192	(308)
Finance administration	77,000	72,110	(4,890)
Legal fees	34,000	34,853	853
City engineer	15,800	7,745	(8,055)
City hall	33,000	32,695	(305)
Economic development	49,525	42,303	(7,222)
Total general government	<u>413,875</u>	<u>394,619</u>	<u>(19,256)</u>
Public Safety:			
Safety	3,000	2,475	(525)
Police protection	115,300	115,297	(3)
Fire protection	136,650	84,059	(52,591)
Building inspections	25,000	8,250	(16,750)
Animal control	1,500	977	(523)
Total public safety	<u>281,450</u>	<u>211,058</u>	<u>(70,392)</u>
Public works:			
Administration			
Employee services	193,700	169,501	(24,199)
Street lighting	30,000	27,694	(2,306)
Total public works	<u>223,700</u>	<u>197,195</u>	<u>(26,505)</u>
Culture & Recreation:			
Park and recreation	23,050	17,937	(5,113)
Library	3,240	3,331	91
Airport	--	583	583
Total culture & recreation	<u>26,290</u>	<u>21,851</u>	<u>(4,439)</u>

See Notes to Financial Statements.

Statement of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
 For the Year Ended December 31, 2015

	Original and Amended Budget Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
Expenditures (Continued)			
Miscellaneous			
Cemetery	10,800	20,564	9,764
Non-departmental	87,700	75,855	(11,845)
Total miscellaneous	<u>98,500</u>	<u>96,419</u>	<u>(2,081)</u>
Total expenditures	<u>1,043,815</u>	<u>921,142</u>	<u>(122,673)</u>
Excess of revenues over (under) expenditures	<u>190,185</u>	<u>350,210</u>	<u>160,025</u>
Other Financing Sources (Uses):			
Transfer in	--	--	--
Transfer (out)	(151,900)	(256,810)	(104,910)
Total other financing sources (uses)	<u>(151,900)</u>	<u>(256,810)</u>	<u>(104,910)</u>
Net change in fund balance	38,285	93,400	55,115
Fund balance -beginning	<u>1,143,145</u>	<u>1,143,145</u>	<u>--</u>
Fund balance - ending	<u>\$ 1,181,430</u>	<u>\$ 1,236,545</u>	<u>\$ 55,115</u>

See Notes to Financial Statements.

CITY OF SANDSTONE, MINNESOTA
 EDA CED Loan Special Revenue Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
 For the Year Ended December 31, 2015

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Interest earned	\$ 600	\$ 1,223	\$ 623
Miscellaneous	--	--	--
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	600	1,223	623
Fund Balance - beginning	<u>384,195</u>	<u>384,195</u>	<u>--</u>
Fund Balance - ending	<u>\$ 384,795</u>	<u>\$ 385,418</u>	<u>\$ 623</u>

CITY OF SANDSTONE, MINNESOTA
 EDA Special Revenue Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
 For the Year Ended December 31, 2015

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Property taxes	\$ 7,500	\$ 17,001	\$ 9,501
Interest earned	200	321	121
Sale of property	200	44,015	43,815
Total Revenues	<u>7,900</u>	<u>61,337</u>	<u>53,437</u>
EXPENDITURES			
Miscellaneous	7,500	1,120	(6,380)
Property acquisition	15,600	15,504	(96)
Total Expenditures	<u>23,100</u>	<u>16,624</u>	<u>(6,476)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(15,200)</u>	<u>44,713</u>	<u>59,913</u>
OTHER FINANCING SOURCES (USES)			
Transfer in	--	(44,015)	(44,015)
Total Other Financing Sources (Uses)	<u>--</u>	<u>(44,015)</u>	<u>(44,015)</u>
Net change in fund balance	(15,200)	698	15,898
Fund Balance - beginning	<u>7,983</u>	<u>7,983</u>	<u>--</u>
Fund Balance - ending	<u>\$ (7,217)</u>	<u>\$ 8,681</u>	<u>\$ 15,898</u>

CITY OF SANDSTONE, MINNESOTA
 Capital Projects Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
 For the Year Ended December 31, 2015

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Property taxes	\$ 224,500	\$ 235,539	\$ 11,039
Special assessments	--	150	150
Interest earned	1,200	1,435	235
Miscellaneous	50,000	19,829	(30,171)
Total Revenues	<u>275,700</u>	<u>256,953</u>	<u>(18,747)</u>
EXPENDITURES			
Capital Expenditures	218,750	218,535	(215)
Total Expenditures	<u>218,750</u>	<u>218,535</u>	<u>(215)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>56,950</u>	<u>38,418</u>	<u>(18,532)</u>
OTHER FINANCING SOURCES (USES)			
Transfer in	108,100	126,293	18,193
Transfer out	--	(80,000)	(80,000)
Total Other Financing Sources (Uses)	<u>108,100</u>	<u>46,293</u>	<u>(61,807)</u>
Net change in fund balance	165,050	84,711	(80,339)
Fund Balance - beginning	<u>390,271</u>	<u>390,271</u>	<u>--</u>
Fund Balance - ending	<u>\$ 555,321</u>	<u>\$ 474,982</u>	<u>\$ (80,339)</u>

CITY OF SANDSTONE, MINNESOTA
 Medical and Business Park Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
 For the Year Ended December 31, 2015

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Interest earned	\$ --	\$ --	\$ --
Miscellaneous	5,270,400	1,176,350	(4,094,050)
Total Revenues	<u>5,270,400</u>	<u>1,176,350</u>	<u>(4,094,050)</u>
EXPENDITURES			
Capital expenditures	5,795,000	530,107	(5,264,893)
Total Expenditures	<u>5,795,000</u>	<u>530,107</u>	<u>(5,264,893)</u>
Excess (deficiency) of revenues over (under) expenditures	(524,600)	646,243	1,170,843
OTHER FINANCING SOURCES (USES)			
Transfer in	275,000	320,015	45,015
Total Other Financing Sources (Uses)	<u>275,000</u>	<u>320,015</u>	<u>45,015</u>
Net change in fund balance	(249,600)	966,258	1,215,858
Fund Balance - beginning	<u>250,000</u>	<u>250,000</u>	<u>--</u>
Fund Balance - ending	<u>\$ 400</u>	<u>\$ 1,216,258</u>	<u>\$ 1,215,858</u>

Proprietary Funds

STATEMENT OF NET POSITION

December 31, 2015

	Water Utility Fund	Sewer Utility Fund	Storm Water Fund	Wild River Apartment Fund	Total
ASSETS					
Current Assets:					
Cash & cash equivalents	\$ 164,238	\$ 64,765	\$ 114,324	\$ 207,675	\$ 551,002
Cash with Fiscal Agent	--	--	--	51,618	51,618
Investments	--	2,009,099	--	219,432	2,228,531
Accounts receivable	6,399	14,090	3,645	448	24,582
Due from other funds	--	120,118	--	--	120,118
Bond discount and refunding	--	--	--	159,191	159,191
Prepaid expenses	1,738	1,589	--	11,719	15,046
Special assessments receivable	6,157	5,089	--	--	11,246
Restricted cash	181,477	459,887	--	5,176	646,540
Total current assets	360,009	2,674,637	117,969	655,259	3,807,874
Noncurrent assets:					
Deferred charges	--	--	--	--	--
Capital assets:					
Land	--	--	--	157,015	157,015
Plant in service	4,806,112	9,991,072	1,000,924	4,244,720	20,042,828
Equipment and fixtures	--	90,106	--	--	90,106
Less: allowance for depreciation	(2,855,789)	(5,368,979)	(654,109)	(2,166,998)	(11,045,875)
Total noncurrent assets	1,950,323	4,712,199	346,815	2,234,737	9,244,074
Total Assets	\$ 2,310,332	\$ 7,386,836	\$ 464,784	\$ 2,889,996	\$ 13,051,948
LIABILITIES					
Current Liabilities:					
Accounts payable	\$ --	\$ --	\$ --	\$ 9,300	\$ 9,300
Bonds payable-current	--	--	--	48,859	48,859
Unearned revenue	6,157	5,089	--	--	11,246
Due to other funds	--	--	--	--	--
Interest payable	--	--	--	1,285	1,285
Security deposits	--	--	--	38,055	38,055
Total Current Liabilities	6,157	5,089	--	97,499	108,745
Noncurrent liabilities:					
Bonds payable	--	--	--	3,660,000	3,660,000
Total noncurrent liabilities	--	--	--	3,660,000	3,660,000
Total Liabilities	\$ 6,157	\$ 5,089	\$ --	\$ 3,757,499	\$ 3,768,745
NET POSITION					
Invested in capital assets, net of related debt	\$ 1,950,323	\$ 4,712,199	\$ 346,815	\$ (1,474,122)	\$ 5,535,215
Restricted for:					
Restricted assets	181,477	459,887	--	5,176	646,540
Prepaid items	1,738	1,589	--	170,910	174,237
Unrestricted	170,637	2,208,072	117,969	430,533	2,927,211
Total Net Position	\$ 2,304,175	\$ 7,381,747	\$ 464,784	\$ (867,503)	\$ 9,283,203

See Notes to Financial Statements.

Proprietary Funds

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

For the Year Ended December 31, 2015

	Water Utility Fund	Sewer Utility Fund	Storm Water Fund	Wild River Apartment Fund	Total
Operating revenues:					
Sales & charges for services	\$ 222,762	\$ 307,621	\$ 41,199	\$ 656,049	\$ 1,227,631
Miscellaneous	1,591	1,307	100	--	2,998
Total operating revenues	<u>224,353</u>	<u>308,928</u>	<u>41,299</u>	<u>656,049</u>	<u>1,230,629</u>
Operating expenses:					
Maintenance and operations	137,282	125,445	7,504	358,288	628,519
Depreciation	101,033	211,619	21,057	109,227	442,936
Total Operating Expenses	<u>238,315</u>	<u>337,064</u>	<u>28,561</u>	<u>467,515</u>	<u>1,071,455</u>
Operating Income (Loss)	<u>(13,962)</u>	<u>(28,136)</u>	<u>12,738</u>	<u>188,534</u>	<u>159,174</u>
Nonoperating revenues (expenses):					
Interest earned	886	41,342	256	19	42,503
Sale of Assets/Property	--	--	--	--	--
Interest expense	--	--	--	(117,787)	(117,787)
Total nonoperating revenues (expenses)	<u>886</u>	<u>41,342</u>	<u>256</u>	<u>(117,768)</u>	<u>(75,284)</u>
Net Income (Loss) Before Transfers and Contributions	(13,076)	13,206	12,994	70,766	83,890
Transfers in	--	--	--	58,216	58,216
Transfers out	<u>(38,000)</u>	<u>(250)</u>	<u>(105,400)</u>	<u>--</u>	<u>(143,650)</u>
Changes in net position	(51,076)	12,956	(92,406)	128,982	(1,544)
Total net position - beginning	<u>2,355,251</u>	<u>7,368,791</u>	<u>557,190</u>	<u>(996,485)</u>	<u>9,284,747</u>
Total net position - ending	<u>\$ 2,304,175</u>	<u>\$ 7,381,747</u>	<u>\$ 464,784</u>	<u>\$ (867,503)</u>	<u>\$ 9,283,203</u>

See Notes to Financial Statements.

Proprietary Funds

STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2015

	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	\$ 221,933	\$ 538,377	\$ 80,092	\$ 649,179	\$ 1,489,581
Cash payments to suppliers	(137,255)	(125,445)	(7,504)	(336,402)	(606,606)
Net Cash Provided (Used) by Operating Activities	<u>84,678</u>	<u>412,932</u>	<u>72,588</u>	<u>312,777</u>	<u>882,975</u>
<u>Cash Flows from Noncapital Financing Activities:</u>					
Transfers in	--	--	--	58,216	58,216
Transfers out	(38,000)	(250)	(105,400)	--	(143,650)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(38,000)</u>	<u>(250)</u>	<u>(105,400)</u>	<u>58,216</u>	<u>(85,434)</u>
<u>Cash Flows from Capital and Related Financing Activities:</u>					
Interest & fiscal charges paid on capital debt	--	--	--	(117,787)	(117,787)
Principal paid on capital debt	--	--	--	(210,000)	(210,000)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>--</u>	<u>--</u>	<u>--</u>	<u>(327,787)</u>	<u>(327,787)</u>
<u>Cash Flows from Investing Activities:</u>					
Property purchases	(111,110)	(43,373)	--	(19,245)	(173,728)
Purchased investments	--	--	--	(2,624)	(2,624)
Interest earned	886	41,342	256	19	42,503
Net Cash Provided (Used) by Investing Activities	<u>(110,224)</u>	<u>(2,031)</u>	<u>256</u>	<u>(21,850)</u>	<u>(133,849)</u>
Net Increase (Decrease) in Cash	(63,546)	410,651	(32,556)	21,356	335,905
Cash, January 1	409,261	2,123,100	146,880	462,545	3,141,786
Cash, December 31	<u>\$ 345,715</u>	<u>\$ 2,533,751</u>	<u>\$ 114,324</u>	<u>\$ 483,901</u>	<u>\$ 3,477,691</u>

See Notes to Financial Statements.

Proprietary Funds

STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2015

	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)	\$ (13,962)	\$ (28,136)	\$ 12,738	\$ 188,534	\$ 159,174
<u>Adjustments to Reconcile Operating Income (Loss) to</u>					
<u>Net Cash Provided (Used) by Operating Activities:</u>					
Depreciation	101,033	211,619	21,057	109,227	442,936
<u>Changes in Assets and Liabilities:</u>					
(Increase) decrease in accounts receivable	(2,420)	(1,162)	(2,756)	(6,870)	(13,208)
(Increase) decrease in due from other funds	--	272,130	41,549	--	313,679
(Increase) decrease in special assessments	(2,724)	(2,801)	--	--	(5,525)
(Increase) decrease in bond discount	--	--	--	21,986	21,986
(Increase) decrease in prepaid expenses	27	30	--	(14)	43
Increase (decrease) in accounts payable	--	--	--	3,541	3,541
Increase (decrease) in deferred revenue	2,724	2,801	--	--	5,525
Increase (decrease) in due to other funds	--	(41,549)	--	--	(41,549)
Increase (decrease) in security deposits	--	--	--	(3,540)	(3,540)
Increase (decrease) in interest payable	--	--	--	(87)	(87)
Total Adjustments	<u>98,640</u>	<u>441,068</u>	<u>59,850</u>	<u>124,243</u>	<u>723,801</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 84,678</u>	<u>\$ 412,932</u>	<u>\$ 72,588</u>	<u>\$ 312,777</u>	<u>\$ 882,975</u>

See Notes to Financial Statements.

CITY OF SANDSTONE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2015

CITY OF SANDSTONE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

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, 2015

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, 2015

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, 2015

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, 2015

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, 2015

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, 2015

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, 2015, are as follows:

	Bank Balance	Carrying Amount
Insured or collateralized by securities held by the City or its agent in the City's name	\$ 5,307,072	\$ 5,271,937
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	\$ 5,307,072	\$ 5,271,937

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, 2015

NOTE 2: CASH AND INVESTMENTS (Continued)

B. Investments (Continued)

Investment balances as of December 31, 2015, are as follows:

	Fair Value
Lakes States Federal Credit Union - CDs	\$ 51,751
USB	220,184
Citigroup Smith Barney	2,002,000
Total	\$ 2,273,935

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

Cash and cash equivalents	\$ 3,973,765
Cash with fiscal agent	51,618
Investments	2,251,555
Restricted cash	790,359
Restricted investments	478,575
Total	\$ 7,545,872

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, 2015

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, 2015, and descriptions are as follows:

	Restricted Cash	Prepaid Items
General fund	\$ 112,619	\$ 18,482
Special revenue funds	31,200	--
Capital projects	--	--
Enterprise funds	646,540	15,046
	\$ 790,359	\$ 33,528

NOTE 3: DUE FROM OTHER GOVERNMENTAL UNITS

There are no amounts due from other governmental units at December 31, 2015.

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, 2015 are as follows:

CITY OF SANDSTONE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 4: LONG-TERM DEBT (Continued)

<u>General Obligation Bonds:</u>	<u>Interest Rates</u>	<u>Maturity</u>	<u>Balance 12/31/15</u>	<u>Due Within One Year</u>
G.O. Refunding 2009 Series A	2.00-4.20%	2024	\$ 390,000	\$ 35,000
G.O. Refunding 2009 Series B	3.25%	2020	120,000	20,000
PFA G.O. Water Revenue Note	2.11%	2019	98,000	24,000
\$340,000 Lease Purchase	4.309-5.41%	2026	261,000	20,000
G.O. Refunding 2012 Series A	.5-2.6%	2023	285,000	40,000
G.O. Temp Impr. Series 2015A	1.50%	2017	1,200,000	--
Total General Obligation			<u>\$ 2,354,000</u>	<u>\$ 139,000</u>
 <u>Business-Type Activities:</u>				
EDA Refunding Bonds 2012	3-3.6%	2029	\$ 3,660,000	\$ 215,000
Total Business-Type Activities			<u>\$ 3,660,000</u>	<u>\$ 215,000</u>

The changes in the long-term debt of the City during 2015 are presented below:

<u>Governmental Activities</u>	<u>Balance 12/31/14</u>	<u>New Issues</u>	<u>Debt Retired</u>	<u>Balance 12/31/15</u>
G.O. Refunding 2009 Series A	\$ 425,000		\$ 35,000	\$ 390,000
G.O. Refunding 2009 Series B	140,000	--	20,000	120,000
PFA G.O. Water Revenue Note	121,000	--	23,000	98,000
\$340,000 Lease Purchase	281,000	--	20,000	261,000
G.O. Refunding 2012 Series A	330,000	--	45,000	285,000
G.O. Temp Impr Series 2015A	--	1,200,000	--	1,200,000
Total G.O. Debt	<u>\$ 1,297,000</u>	<u>\$ 1,200,000</u>	<u>\$ 143,000</u>	<u>\$ 2,354,000</u>
 <u>Business-Type Activities</u>				
EDA Refunding Bonds 2012	3,870,000	--	210,000	3,660,000
	<u>\$ 3,870,000</u>	<u>\$ --</u>	<u>\$ 210,000</u>	<u>\$ 3,660,000</u>

CITY OF SANDSTONE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
 December 31, 2015

NOTE 4: LONG-TERM DEBT (Continued)

The annual requirement to amortize all long-term debt outstanding as of December 31, 2015 including interest payments for the next five years, are summarized below:

Year Ending December 31	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2016	139,000	50,762	215,000	114,038
2017	1,345,000	50,307	220,000	107,512
2018	162,000	28,021	225,000	100,838
2019	143,000	23,568	235,000	93,938
2020	124,000	18,981	240,000	86,812
2021-2025	426,000	38,469	1,310,000	318,552
2026-2030	15,000	320	1,215,000	87,852
Total	<u>\$ 2,354,000</u>	<u>\$ 210,428</u>	<u>\$ 3,660,000</u>	<u>\$ 909,542</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.

General Obligation Temporary Improvement Bonds, Series 2015A were issued with a maturity of August 1 2017. The \$1,200,00 issue will be used for cash flow of the new infrastructure to the Business Park. The EDA Federal Grant will be used to cover the bond debt.

NOTE 5: DEFINED BENEFIT PENSION PLAN - STATEWIDE

A. Defined Benefit Pension Plan -Statewide

1. Plan Description

The City participates in the following cost-sharing multiple-employer defined benefit plans administered by the Public Employers Retirement Association of Minnesota (PERA). PERA's defined benefit pension plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356. PERA's defined pension plans are tax qualified plans under Section 401 (a) of the Internal Revenue Code.

General Employees Retirement Fund (GERF): All full-time and certain part-time employees of the City of Sandstone are covered by the General Employees Retirement Fund (GERF). GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

CITY OF SANDSTONE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE 5: DEFINED BENEFIT PENSION PLAN (Continued)

A. Defined Benefit Pension Plan - Statewide (Continued)

1. Plan Description (Continued)

Benefits Provide

PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state legislature. Benefit increase are provided to benefit recipients each January. Increase are related to the funding ratio of the plan. Members in plans that are at least 90% funded for two consecutive years are given 2.5% increases. Members in plans that have not exceeded 90% funded, or have fallen below 80%, are given 1% increases.

The benefit provisions stated in the following paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not receiving them yet are bound by the provisions in effect at the time they last terminated their public service.

GERF Benefits

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2% of average salary for each of the first ten years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first ten years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

2. Contributions

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state legislature.

GERF Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.50%, respectively, of their annual covered salary in calendar year 2015. The City of Sandstone was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2015. The City of Sandstone's contributions to the GERF for the year ended December 31, 2015, were \$20,946. The City of Sandstone's contributions were equal to the required contributions as set by state statute.

3. Pensions Costs

At December 31, 2015, the City of Sandstone reported a liability of \$248,761 for its proportionate share of the GERF's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City of Sandstone's proportion of the net pension liability was based on the City of Sandstone's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the City of Sandstone's proportion share was 0.0048% which was an increase/decrease of 0.0005% from its proportion measured as of June 30, 2014.

CITY OF SANDSTONE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
 December 31, 2015

NOTE 5: DEFINED BENEFIT PENSION PLAN (Continued)
 A. Defined Benefit Pension Plan - Statewide(Continued)

3. Pension Costs (Continued)

For the year ended December 31, 2015, the City of Sandstone recognized pension expense of \$20,946 for its proportionate share of the GERS's pension expense.

At December 31, 2015, the City of Sandstone reported its proportionate share of the GERS's deferred outflow of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	23,549	12,542
Changes in actuarial assumptions	--	--
Difference between projected and actual investments earnings	--	--
Contribution paid to PERA subsequent to the measurement date	--	17,616
Total	\$ 23,549	\$ 30,158

\$23,549 reported as deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	Pension Expense Amount
2016	6,022
2017	6,021
2018	6,021
2019	6,888
2020	--
Thereafter	--

4. Actuarial Assumptions

The total pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.75 % per year
Active Member Payroll Growth	3.50% per year
Investment Rate of Return	7.90%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2000 tables for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be: 1% effective every January 1st until 2034, then 2.5% for GERS.

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of actuarial experience studies. The experience study in the GERS was for the period July 1, 2004, through June 30, 2008, with an update of economic assumptions in 2014. The experience study for PEPFF was for the period July 1, 2004, through June 30, 2009. Experience studies have not been prepared for the PECF, but assumptions are reviewed annually.

CITY OF SANDSTONE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 5: DEFINED BENEFIT PENSION PLAN (Continued)

A. Defined Benefit Pension Plan - Statewide (Continued)

4. Actuarial Assumptions (Continued)

There were no changes in actuarial assumptions in 2015.

The long-term expected rate of return on pension plan investments is 7.9%. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Stocks	45%	5.50%
International Stocks	15%	6.00%
Bonds	18%	1.45%
Alternative Assets	20%	6.40%
Cash	2%	0.50%

5. Discount Rate

The discount rate used to measure the total pension liability was 7.9%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, each of the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

6. Pension Liability Sensitivity

The following presents the City of Sandstone's proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the City of Sandstone's proportionate share of the net pension liability would be if it were calculated using a discount rate 1 percentage point lower or 1 percentage point higher than the current discount rate:

CITY OF SANDSTONE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
 December 31, 2015

NOTE 5: DEFINED BENEFIT PENSION PLAN (Continued)

A. Defined Benefit Pension Plan - Statewide (Continued)

6. Pension Liability Sensitivity (Continued)

	1% Decrease in Discount Rate (6.9%)	Discount Rate (7.9%)	1% Increase in Discount Rate (8.9%)
City's proportionate share of the GERS net pension liability:	\$97,785	\$62,190	\$32,794

7. Pension Plan Fiduciary Net Position

Detailed information about each pension plan's fiduciary net position is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the Internet at www.mnpera.org.

NOTE 6: PRIOR PERIOD ADJUSTMENT - CHANGE IN ACCOUNTING PRINCIPAL

The beginning net position of the governmental activities has been decreased to reflect a change in accounting principal. The City implemented GASB 68, Accounting and Financial Reporting for Pensions which record the City's proportionate share of the collective net pension liability, deferred inflow of resources and deferred outflow of resources, pension expense on the City's government-wide financial statements. Beginning governmental activities net position has been restated from \$5,748,599 to \$5,499,632 (a decrease of \$248,967). Prior year comparative information does not reflect this change in accounting principal because the cost-sharing multiple-employer defined benefit plans in which the City participates have not been provided this information to the City.

CITY OF SANDSTONE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 7: SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The City maintains four enterprise funds which provide water, sewer, storm water, and senior apartments. Segment information for the year ended December 31, 2015, is as follows:

	Water	Sewer	Storm	Wild River
Operating revenues	\$ 224,353	\$ 308,928	\$ 41,299	\$ 656,049
Expenses:				
Depreciation	\$ 101,033	\$ 211,619	\$ 21,057	\$ 109,227
Other	137,282	125,445	7,504	358,288
Total expenses	\$ 238,315	\$ 337,064	\$ 28,561	\$ 467,515
Nonoperating revenues (expenses)	\$ 886	\$ 41,342	\$ 256	\$ (117,787)
Net income (loss)	\$ (13,076)	\$ 13,206	\$ 12,994	\$ 70,747
Total assets	\$ 2,310,332	\$ 7,386,836	\$ 464,784	\$ 2,889,996
Fund equity	\$ 2,304,175	\$ 7,381,747	\$ 464,784	\$ (867,503)
Capital expenditures - net	\$ 111,110	\$ 43,373	\$ --	\$ 19,245

CITY OF SANDSTONE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
 December 31, 2015

NOTE 8: DEFICIT FUND BALANCES

There was one fund with a deficit fund balance at the individual fund level at December 31, 2015.

Enterprise - Wild River Apartments	<u><u>\$ (867,503)</u></u>
------------------------------------	----------------------------

NOTE 9: APPROPRIATIONS/EXPENDITURES OVER REVENUES

Expenditures exceeded revenues in certain individual funds For the Year Ended December 31, 2015, as follows:

	Expenditures	Revenues	Difference
Debt Service - 1999 PFA Water GO	25,553	24	25,529
Debt Service - \$655,000 GO Refunding 2009A	51,635	39,878	11,757
Debt Service - \$405,000 GO Improvement & Refunding 2012	50,387	45,372	5,015
Debt Servie - \$340,000 Lease Purchase	30,767	31	30,736
Tax Abatement	4,978	3,013	1,965
EDA Public Works Federal Grant	1,052	--	1,052
Medical and Business Park	530,107	--	530,107

NOTE 10: 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 11: EXCESS EXPENDITURES OVER BUDGET

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

	Expenditures	Budget	Variance
\$655,000 GO Refunding 2009A	\$ 51,635	\$ 51,170	\$ 465
Tax Abatement	4,978	4,900	78
EDA Public Works Federal Grant Fund	1,052	--	1,052

CITY OF SANDSTONE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 12: INTERFUND RECEIVABLES AND PAYABLES

The amounts due to and due from other funds at December 31, 2015, at the individual fund level are summarized below:

Funds	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General	\$ 142,796	\$ --
Capital Projects:		
Capital Projects	--	262,914
EDA Public	--	1,052
Debt Service:		
Temp Improv.	1,052	--
Enterprise Fund:		
Sewer	120,118	--
Special Revenue:		
EDA CED Loan	142,900	--
EDA	--	142,900
	<u> </u>	<u> </u>
Totals	<u>\$ 406,866</u>	<u>\$ 406,866</u>

NOTE 13: 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, 2015

NOTE 14: CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2015, are as follows:

<u>Governmental Activities</u>	Beginning Balances	Increase	Decrease	Ending Balances
Capital Assets:				
Land	\$ 627,868	\$ --	\$ --	\$ 627,868
Infrastructure	7,367,409	135,961	--	7,503,370
Buildings and improvements	1,833,365	--	--	1,833,365
Equipment	1,152,082	12,000	--	1,164,082
Total Capital Assets	<u>10,980,724</u>	<u>147,961</u>	<u>--</u>	<u>11,128,685</u>
Less: Accumulated Depreciation for:				
Infrastructure	4,906,717	197,697	--	5,104,414
Buildings and improvements	1,115,466	46,527	--	1,161,993
Equipment	727,743	76,513	--	804,256
Total Accumulated Depreciation	<u>6,749,926</u>	<u>320,737</u>	<u>--</u>	<u>7,070,663</u>
Total Capital Assets, Net of Depreciation	<u>\$ 4,230,798</u>	<u>\$ (172,776)</u>	<u>\$ --</u>	<u>\$ 4,058,022</u>
 <u>Business - Type Activities</u>				
Capital Assets:				
Land	\$ 157,015	\$ --	\$ --	\$ 157,015
Buildings and improvements	19,892,473	150,355	--	20,042,828
Equipment	66,733	23,373	--	90,106
Total Capital Assets	<u>20,116,221</u>	<u>173,728</u>	<u>--</u>	<u>20,289,949</u>
Less: Accumulated Depreciation for:				
Buildings and improvements	10,558,014	438,291	--	10,996,305
Equipment	44,925	4,645	--	49,570
Total Accumulated Depreciation	<u>10,602,939</u>	<u>442,936</u>	<u>--</u>	<u>11,045,875</u>
Business - Type Capital Assets, Net	<u>\$ 9,513,282</u>	<u>\$ (269,208)</u>	<u>\$ --</u>	<u>\$ 9,244,074</u>

CITY OF SANDSTONE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
 December 31, 2015

NOTE 14: CAPITAL ASSETS (Continued)

Depreciation expense was charged to function/programs as follows:

Governmental Activities	
General government	\$ 212,837
Public safety	69,563
Public works	27,418
Culture and recreation	7,772
Unallocated	3,147
Total Depreciation Expense - Governmental Activities	\$ 320,737
Business - Type Activities	
Water utility	101,033
Sewer utility	211,619
Storm Water	21,057
Wild River Apartments	109,227
Total Depreciation Expense - Business - Type Activities	\$ 442,936

NOTE 15: 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.

This Page Intentionally Left Blank.

City of Sandstone, Minnesota
REQUIRED SUPPLEMENTARY INFORMATION OTHER
THAN MANAGEMENT'S DISCUSSION AND
ANALYSIS (UNAUDITED)
December 31, 2015

CITY OF SANDSTONE, MINNESOTA
 Required Supplementary Information
Schedule of City's Proportionate Share of Net Pension Liability and City's Contributions
 PERA General Employees Retirement Fund
 December 31, 2015

Schedule of City's Proportionate Share of Net Pension Liability

Fiscal Year Ending December 31,	Proportion (Percentage) of the Net Pension Liability (Asset)	Proportionate Share (Amount) of the Net Pension Liability (Assets) (a)	Covered Employee Payroll (b)	Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Employee Payroll (a/b)	Plan Fiduciary Net Position of the Total Pension Liability
2015	0.0048%	\$ 248,761	\$ 283,252	87.8%	78.7%

Note: This schedule is intended to report ten-year trends. Additional years will be reported when they are available.

Schedule of City's Contributions

Fiscal Year Ending December 31,	Statutory Required Contribution (a)	Contributions in Relation to the Statutorily Required Contributions (b)	Contribution Deficiency (Excess) (a-b)	Covered Employee Payroll (d)	Contributions as a Percentage of Covered Employee Payroll (b/d)
2015	\$ 20,946	\$ 20,946	\$ --	\$ 283,252	7.39%

Note: This schedule is intended to report ten-year trends. Additional years will be reported when they are available.

CITY OF SANDSTONE, MINNESOTA
COMBINING AND INDIVIDUAL FUND
STATEMENTS AND SCHEDULES
December 31, 2015

CITY OF SANDSTONE, MINNESOTA
 Nonmajor Governmental Funds
COMBINING BALANCE SHEET
 December 31, 2015

	Special Revenue Funds			
	Cemetery Permanent Care	EDA Wild River Capital Expense	EDA Wild River Reserve	Special Revenue Total
ASSETS				
Cash & cash equivalents	\$ 93,594	\$ 104,791	\$ 174,439	\$ 372,824
Investments	23,024	--	--	23,024
Accounts receivable	--	--	--	--
Delinquent property tax	--	--	10,942	10,942
Special assessment	--	--	--	--
Special assessment deferred	--	--	--	--
Due from other funds	--	--	--	--
Bond Discount	--	--	--	--
Restricted cash	--	--	--	--
Total assets	<u>\$ 116,618</u>	<u>\$ 104,791</u>	<u>\$ 185,381</u>	<u>\$ 406,790</u>
LIABILITIES AND FUND BALANCE				
<u>Liabilities:</u>				
Cash in bank (overdraft)	\$ --	\$ --	\$ --	\$ --
Due to other funds	--	--	--	--
Unearned revenue	--	--	10,942	10,942
Total liabilities	<u>--</u>	<u>--</u>	<u>10,942</u>	<u>10,942</u>
<u>Fund Balance:</u>				
Reserved	<u>116,618</u>	<u>104,791</u>	<u>174,439</u>	<u>395,848</u>
Total fund balance	<u>116,618</u>	<u>104,791</u>	<u>174,439</u>	<u>395,848</u>
Total liabilities and fund balance	<u>\$ 116,618</u>	<u>\$ 104,791</u>	<u>\$ 185,381</u>	<u>\$ 406,790</u>

Debt Service Funds			
1999 PFA Water G.O.	\$655,000 G.O. Refunding Bond, 2009A	\$430,000 G.O. Improvement Bond, 2009B	\$405,000 2012A G.O. Improvement & Refunding
\$ 3,690	\$ 59,962	\$ 69,179	\$ 94,928
--	--	--	--
--	--	--	--
--	4,152	2,061	2,982
--	--	--	--
--	86	16,780	48,443
--	--	--	--
--	294	--	--
--	--	--	--
<u>\$ 3,690</u>	<u>\$ 64,494</u>	<u>\$ 88,020</u>	<u>\$ 146,353</u>
\$ --	\$ --	\$ --	\$ --
--	--	--	--
--	4,238	18,841	51,425
<u>--</u>	<u>4,238</u>	<u>18,841</u>	<u>51,425</u>
<u>3,690</u>	<u>60,256</u>	<u>69,179</u>	<u>94,928</u>
<u>3,690</u>	<u>60,256</u>	<u>69,179</u>	<u>94,928</u>
<u>\$ 3,690</u>	<u>\$ 64,494</u>	<u>\$ 88,020</u>	<u>\$ 146,353</u>

CITY OF SANDSTONE, MINNESOTA
 Nonmajor Governmental Funds
COMBINING BALANCE SHEET
 December 31, 2015

	Debt Service Funds		
	General Obligation Temp Impr 1.2M 2015A	\$340,000 Lease Purchase Public Works	Debt Service Total
ASSETS			
Cash & cash equivalents	\$ 22,609	\$ 1,290	\$ 251,658
Investments	--	--	--
Accounts receivable	--	--	--
Delinquent property tax	--	--	9,195
Special assessment	--	--	--
Special assessment deferred	--	--	65,309
Due from other funds	1,052	--	1,052
Bond discount	--	--	294
Restricted cash	--	--	--
Total Assets	\$ 23,661	\$ 1,290	\$ 327,508
 LIABILITIES AND FUND BALANCE			
<u>Liabilities:</u>			
Cash in bank (overdraft)	\$ --	\$ --	\$ --
Due to other funds	--	--	--
Deferred revenue	--	--	74,504
Total Liabilities	--	--	74,504
 <u>Fund Balance:</u>			
Reserved	23,661	1,290	253,004
Total Fund Balance	23,661	1,290	253,004
 Total Liabilities and Fund Balance	 \$ 23,661	 \$ 1,290	 \$ 327,508

Capital Project Funds			
Tax Abatement	EDA Public Works Federal Grant	Capital Projects Total	Total Nonmajor Governmental Funds
\$ 1	\$ --	\$ 1	\$ 624,483
--	--	--	23,024
1,004	--	1,004	1,004
--	--	--	20,137
--	--	--	--
--	--	--	65,309
--	--	--	1,052
--	--	--	294
--	--	--	--
<u>\$ 1,005</u>	<u>\$ --</u>	<u>\$ 1,005</u>	<u>735,303</u>
\$ --	\$ --	\$ --	\$ --
--	1,052	1,052	1,052
--	--	--	85,446
<u>--</u>	<u>1,052</u>	<u>1,052</u>	<u>86,498</u>
1,005	(1,052)	(47)	648,805
<u>1,005</u>	<u>(1,052)</u>	<u>(47)</u>	<u>648,805</u>
<u>\$ 1,005</u>	<u>\$ --</u>	<u>\$ 1,005</u>	<u>735,303</u>

CITY OF SANDSTONE, MINNESOTA
Nonmajor Governmental Funds
Combined Statement of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended December 31, 2015

	Special Revenue Funds			
	Cemetery Permanent Care	EDA Wild River Capital Expense	EDA Wild River Reserve	Special Revenue Total
REVENUES				
Property tax	\$ --	\$ --	\$ 84,807	\$ 84,807
Interest	354	181	--	535
Special assessments	--	--	--	--
Miscellaneous	1,750	34,400	303	36,453
Total Revenues	<u>2,104</u>	<u>34,581</u>	<u>85,110</u>	<u>121,795</u>
EXPENDITURES				
Contractual services	--	--	--	--
Bond principal	--	--	--	--
Interest	--	--	--	--
Miscellaneous	--	--	--	--
Total Expenditures	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Excess (deficiency) of revenue over (under) expenditures	<u>2,104</u>	<u>34,581</u>	<u>85,110</u>	<u>121,795</u>
OTHER FINANCING SOURCES (USES)				
Transfer in	--	--	--	--
Transfer out	--	--	(58,216)	(58,216)
Total Other Financing Source (uses)	<u>--</u>	<u>--</u>	<u>(58,216)</u>	<u>(58,216)</u>
Net change in fund balances	2,104	34,581	26,894	63,579
Fund Balances - beginning	<u>114,514</u>	<u>70,210</u>	<u>147,545</u>	<u>332,269</u>
Fund Balances - ending	<u>\$ 116,618</u>	<u>\$ 104,791</u>	<u>\$ 174,439</u>	<u>\$ 395,848</u>

Debt Service			
1999 PFA Water G.O.	\$655,000 G.O. Refunding Bond, 2009A	\$430,000 G.O. Improvement Bond, 2009B	\$405,000 2012A G.O. Improvement & Refunding
\$ --	\$ 39,802	\$ 19,782	\$ 28,675
24	76	123	145
--	--	5,490	16,552
--	--	--	--
<u>24</u>	<u>39,878</u>	<u>25,395</u>	<u>45,372</u>
--	--	--	--
23,000	35,000	20,000	45,000
2,553	15,718	4,225	5,387
--	917	--	--
<u>25,553</u>	<u>51,635</u>	<u>24,225</u>	<u>50,387</u>
<u>(25,529)</u>	<u>(11,757)</u>	<u>1,170</u>	<u>(5,015)</u>
26,000	12,000	--	5,400
--	--	--	--
<u>26,000</u>	<u>12,000</u>	<u>--</u>	<u>5,400</u>
471	243	1,170	385
<u>3,219</u>	<u>60,013</u>	<u>68,009</u>	<u>94,543</u>
<u>\$ 3,690</u>	<u>\$ 60,256</u>	<u>\$ 69,179</u>	<u>\$ 94,928</u>

CITY OF SANDSTONE, MINNESOTA
 Nonmajor Governmental Funds
Combined Statement of Revenues, Expenditures and Changes in Fund Balance
 For the Year Ended December 31, 2015

	Debt Service Funds		
	General Obligation Temp Impr 1.2M 2015A	\$340,000 Lease Purchase Public Works	Debt Service Total
REVENUES			
Property taxes	\$ --	\$ --	\$ 88,259
Interest	11	31	410
Special assessments	--	--	22,042
Miscellaneous	23,650	--	23,650
Total Revenues	<u>23,661</u>	<u>31</u>	<u>134,361</u>
EXPENDITURES			
Contractual services	--	--	--
Bond principal	--	20,000	143,000
Interest	--	10,767	38,650
Miscellaneous	--	--	917
Total Expenditures	<u>--</u>	<u>30,767</u>	<u>182,567</u>
Excess (deficiency) of revenues over (under) expenditures	<u>23,661</u>	<u>(30,736)</u>	<u>(48,206)</u>
OTHER FINANCING SOURCES (USES)			
Transfer in	--	31,800	75,200
Transfer out	--	--	--
Total Other Financing Sources (uses)	<u>--</u>	<u>31,800</u>	<u>75,200</u>
Net change in fund balances	23,661	1,064	26,994
Fund balance - beginning	<u>--</u>	<u>226</u>	<u>226,010</u>
Fund balances - ending	<u>\$ 23,661</u>	<u>\$ 1,290</u>	<u>\$ 253,004</u>

Capital Project Funds			
Tax Abatement	EDA Public Works Federal Grant	Capital Projects Total	Total Nonmajor Governmental Funds
\$ --	\$ --	\$ --	\$ 173,066
--	--	--	945
--	--	--	22,042
3,013	--	3,013	63,116
<u>3,013</u>	<u>--</u>	<u>3,013</u>	<u>259,169</u>
4,978	1,052	6,030	6,030
--	--	--	143,000
--	--	--	38,650
--	--	--	917
<u>4,978</u>	<u>1,052</u>	<u>6,030</u>	<u>188,597</u>
<u>(1,965)</u>	<u>(1,052)</u>	<u>(3,017)</u>	<u>70,572</u>
2,968	--	2,968	78,168
--	--	--	(58,216)
<u>2,968</u>	<u>--</u>	<u>2,968</u>	<u>19,952</u>
1,003	(1,052)	(49)	90,524
<u>2</u>	<u>--</u>	<u>2</u>	<u>558,281</u>
<u>\$ 1,005</u>	<u>\$ (1,052)</u>	<u>\$ (47)</u>	<u>\$ 648,805</u>

CITY OF SANDSTONE, MINNESOTA
Cemetery Permanent Care Special Revenue Fund

Schedule 4

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
For the Year Ended December 31, 2015

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Interest earned	\$ 500	\$ 354	\$ (146)
Miscellaneous	2,000	1,750	(250)
Total Revenues	<u>2,500</u>	<u>2,104</u>	<u>(396)</u>
EXPENDITURES			
Expenditures	--	--	--
Total Expenditures	<u>--</u>	<u>--</u>	<u>--</u>
Excess (deficiency) of revenues over (under) expenditures	2,500	2,104	(396)
Fund Balance - beginning	<u>114,514</u>	<u>114,514</u>	<u>--</u>
Fund Balance - ending	<u>\$ 117,014</u>	<u>\$ 116,618</u>	<u>\$ (396)</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, 2015

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Interest earned	\$ 200	\$ 181	\$ (19)
Miscellaneous	14,900	34,400	19,500
Total Revenues	<u>15,100</u>	<u>34,581</u>	<u>19,481</u>
EXPENDITURES			
Miscellaneous	14,500	--	(14,500)
Total Expenditures	<u>14,500</u>	<u>--</u>	<u>(14,500)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>600</u>	<u>34,581</u>	<u>33,981</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	20,000	--	(20,000)
Total other financing sources (uses)	<u>20,000</u>	<u>--</u>	<u>(20,000)</u>
Net change in fund balances	20,600	34,581	13,981
Fund Balance - beginning	<u>70,210</u>	<u>70,210</u>	<u>--</u>
Fund Balance - ending	<u>\$ 90,810</u>	<u>\$ 104,791</u>	<u>\$ 13,981</u>

EDA Wild River Reserve Fund

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

For the Year Ended December 31, 2015

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Property tax	\$ 100,000	\$ 84,807	\$ (15,193)
Miscellaneous	--	303	303
Total Revenues	<u>100,000</u>	<u>85,110</u>	<u>(14,890)</u>
EXPENDITURES			
Expenditures	--	--	--
Total Expenditures	<u>--</u>	<u>--</u>	<u>--</u>
Excess (deficiency) of revenues over (under) expenditures	<u>100,000</u>	<u>85,110</u>	<u>(14,890)</u>
OTHER FINANCING SOURCES (USES)			
Transfers (out)	(100,000)	(58,216)	41,784
Total other financing sources (uses)	<u>(100,000)</u>	<u>(58,216)</u>	<u>41,784</u>
Net change in fund balances	--	26,894	26,894
Fund Balance - beginning	<u>147,545</u>	<u>147,545</u>	<u>--</u>
Fund Balance - ending	<u>\$ 147,545</u>	<u>\$ 174,439</u>	<u>\$ 26,894</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, 2015

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Property taxes	\$ 37,950	\$ 39,802	\$ 1,852
Interest	1,200	76	(1,124)
Total Revenues	<u>39,150</u>	<u>39,878</u>	<u>728</u>
EXPENDITURES			
Bond principal	35,000	35,000	--
Interest	16,170	15,718	(452)
Fiscal agent fees	--	917	917
Total Expenditures	<u>51,170</u>	<u>51,635</u>	<u>465</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(12,020)</u>	<u>(11,757)</u>	<u>263</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	<u>12,000</u>	<u>12,000</u>	<u>--</u>
Total other financing sources (uses)	<u>12,000</u>	<u>12,000</u>	<u>--</u>
Net change in fund balances	(20)	243	263
Fund Balance - beginning	<u>60,013</u>	<u>60,013</u>	<u>--</u>
Fund Balance - ending	<u>\$ 59,993</u>	<u>\$ 60,256</u>	<u>\$ 263</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, 2015

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Property tax	\$ 18,835	\$ 19,782	\$ 947
Special Assessments	6,255	5,490	(765)
Interest	--	123	123
Total Revenues	<u>25,090</u>	<u>25,395</u>	<u>305</u>
EXPENDITURES			
Bond principle	20,000	20,000	--
Interest	4,725	4,225	(500)
Total Expenditures	<u>24,725</u>	<u>24,225</u>	<u>(500)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>365</u>	<u>1,170</u>	<u>805</u>
Net change in fund balances	365	1,170	805
Fund Balance - beginning	<u>68,009</u>	<u>68,009</u>	<u>--</u>
Fund Balance - ending	<u>\$ 68,374</u>	<u>\$ 69,179</u>	<u>\$ 805</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, 2015

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Property taxes	\$ 27,250	\$ 28,675	\$ 1,425
Special assessments	18,025	16,552	(1,473)
Interest	--	145	145
Total Revenues	<u>45,275</u>	<u>45,372</u>	<u>97</u>
EXPENDITURES			
Bond principal	45,000	45,000	--
Interest	5,650	5,387	(263)
Agent fees	--	--	--
Total Expenditures	<u>50,650</u>	<u>50,387</u>	<u>(263)</u>
Excess (deficiency) of revenues over (under) expenditures	(5,375)	(5,015)	360
OTHER FINANCING SOURCES (USES)			
Transfer in	5,400	5,400	--
Total other financing sources (uses)	<u>5,400</u>	<u>5,400</u>	<u>--</u>
Net change in fund balances	25	385	360
Fund Balance - beginning	<u>94,543</u>	<u>94,543</u>	<u>--</u>
Fund Balance - ending	<u>\$ 94,568</u>	<u>\$ 94,928</u>	<u>\$ 360</u>

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

Schedule 10

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
For the Year Ended December 31, 2015

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Interest	\$ --	\$ 24	\$ 24
Total Revenues	<u>--</u>	<u>24</u>	<u>24</u>
EXPENDITURES			
Bond principal	23,000	23,000	--
Interest	2,553	2,553	--
Total Expenditures	<u>25,553</u>	<u>25,553</u>	<u>--</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(25,553)</u>	<u>(25,529)</u>	<u>24</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	26,000	26,000	--
Total other financing sources (uses)	<u>26,000</u>	<u>26,000</u>	<u>--</u>
Net change in fund balances	447	471	24
Fund Balance - beginning	<u>3,219</u>	<u>3,219</u>	<u>--</u>
Fund Balance - ending	<u>\$ 3,666</u>	<u>\$ 3,690</u>	<u>\$ 24</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, 2015

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Interest	\$ --	\$ 31	\$ (31)
Total Revenues	<u>--</u>	<u>31</u>	<u>(31)</u>
EXPENDITURES			
Bond principal	20,000	20,000	--
Interest	11,730	10,767	(963)
Total Expenditures	<u>31,730</u>	<u>30,767</u>	<u>(963)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(31,730)</u>	<u>(30,736)</u>	<u>(994)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	31,800	31,800	--
Total other financing sources (uses)	<u>31,800</u>	<u>31,800</u>	<u>--</u>
Net change in fund balances	70	1,064	(994)
Fund Balance - beginning	<u>226</u>	<u>226</u>	<u>--</u>
Fund Balance - ending	<u>\$ 296</u>	<u>\$ 1,290</u>	<u>\$ (994)</u>

CITY OF SANDSTONE, MINNESOTA
 General Obligation Temporary Improvement 1.2M 2015A Bond
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
 For the Year Ended December 31, 2015

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Bond proceeds	\$ --	\$ 23,650	\$ (23,650)
Interest	--	11	(11)
Total Revenues	<u>--</u>	<u>23,661</u>	<u>(23,661)</u>
EXPENDITURES			
Bond principal	--	--	--
Interest	--	--	--
Total Expenditures	<u>--</u>	<u>--</u>	<u>--</u>
Excess (deficiency) of revenues over (under) expenditures	<u>--</u>	<u>23,661</u>	<u>(23,661)</u>
Net change in fund balances	--	23,661	(23,661)
Fund Balance - beginning	<u>--</u>	<u>--</u>	<u>--</u>
Fund Balance - ending	<u>\$ --</u>	<u>\$ 23,661</u>	<u>\$ (23,661)</u>

CITY OF SANDSTONE, MINNESOTA
 Tax Abatement Financing Capital Project Fund

Schedule 13

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
 For the Year Ended December 31, 2015

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Miscellaneous	\$ 4,900	\$ 3,013	\$ (1,887)
Total Revenues	4,900	3,013	(1,887)
EXPENDITURES			
Contractual Services	4,900	4,978	78
Total Expenditures	4,900	4,978	78
Excess (deficiency) of revenues over (under) expenditures	--	(1,965)	(1,965)
OTHER FINANCING SOURCES (USES)			
Transfers in	--	2,968	(2,968)
Total other financing sources (uses)	--	2,968	(2,968)
Net change in fund balances	--	1,003	(4,933)
Fund Balance - beginning	2	2	--
Fund Balance - ending	\$ 2	\$ 1,005	\$ --

EDA Public Works Federal Grant Fund

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

For the Year Ended December 31, 2015

	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	--	1,052	1,052
Total Expenditures	<u> --</u>	<u> 1,052</u>	<u> 1,052</u>
Excess (deficiency) of revenues over (under) expenditures	--	(1,052)	(1,052)
Net change in fund balances	--	(1,052)	(1,052)
Fund Balance - beginning	<u> --</u>	<u> --</u>	<u> --</u>
Fund Balance - ending	<u> \$ --</u>	<u> \$ (1,052)</u>	<u> \$ (1,052)</u>

CITY OF SANDSTONE, MINNESOTA
SUPPLEMENTARY FINANCIAL INFORMATION
December 31, 2015

CITY OF SANDSTONE, MINNESOTA
 \$655,000 General Obligation Refunding Bonds, Series 2009A
STATEMENT OF BOND AND INTEREST MATURITIES
 December 31, 2015

Table 1

<u>Maturity</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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>\$ 390,000.00</u>	<u>\$ 73,676.25</u>	<u>\$ 463,676.25</u>

CITY OF SANDSTONE, MINNESOTA
 \$430,000 General Obligation Improvement Bonds, Series 2009B
STATEMENT OF BOND AND INTEREST MATURITIES
 December 31, 2015

Table 2

<u>Maturity</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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>\$ 120,000.00</u>	<u>\$ 10,075.00</u>	<u>\$ 130,075.00</u>

CITY OF SANDSTONE, MINNESOTA
 \$405,000 General Obligation Improvement & Refunding Bond, Series 2012A
STATEMENT OF BOND AND INTEREST MATURITIES
 December 31, 2015

Table 3

<u>Maturity</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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>\$ 285,000.00</u>	<u>\$ 23,492.50</u>	<u>\$ 308,492.50</u>

CITY OF SANDSTONE, MINNESOTA
 \$401,500 General Obligation Water Revenue Note
STATEMENT OF BOND AND INTEREST MATURITIES
 December 31, 2015

Table 4

<u>Maturity</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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>\$ 98,000.00</u>	<u>\$ 5,211.70</u>	<u>\$ 103,211.70</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, 2015

Table 5

<u>Maturity</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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>\$ 3,660,000.00</u>	<u>\$ 909,541.25</u>	<u>\$ 4,569,541.25</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, 2015

Table 6

<u>Maturity</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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>\$ 261,000.00</u>	<u>\$ 65,322.50</u>	<u>\$ 326,322.50</u>

CITY OF SANDSTONE, MINNESOTA
 \$1,200,000 General Obligation Temporary Improvement Bonds, Series2015A

Table 7

STATEMENT OF BOND AND INTEREST MATURITIES

December 31, 2015

<u>Maturity</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
8/1/2016	1.500%	\$ --	\$ 14,650.00	\$ 14,650.00
2/1/2017	1.500%	--	9,000.00	9,000.00
8/1/2017	1.500%	1,200,000.00	9,000.00	1,209,000.00
	Totals	<u>\$ 1,200,000.00</u>	<u>\$ 32,650.00</u>	<u>\$ 1,232,650.00</u>

CITY OF SANDSTONE, MINNESOTA
OTHER REPORTS
December 31, 2015

This Page Intentionally Left Blank.

Althoff and Nordquist, LLC

CERTIFIED PUBLIC ACCOUNTANTS
www.althoffandnordquist.com

505 - SECOND STREET SE
PINE CITY, MINNESOTA 55063
TELEPHONE: 320-629-6185

124 EAST FOREST
MORA, MINNESOTA 55051
TELEPHONE: 320-679-4846

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

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

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, 2015, 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 June 7, 2016.

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.



The CPA. Never Underestimate The Value.®

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
June 7, 2016

This Page Intentionally Left Blank.