

CITY OF SANDSTONE, MINNESOTA
BASIC FINANCIAL STATEMENTS
For the Year Ended December 31, 2016

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	32
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 - EDA Public Works Federal Grant - Budget to Actual	Statement 8	37
Statement of Revenues, Expenditures, and Changes in Fund Balances - Minnesota DOT Grant Fund - Budget to Actual	Statement 9	38
Statement of Revenues, Expenditures, and Changes in Fund Balances - EDA Special Revenue Fund - Budget to Actual	Statement 10	39
Statement of Revenues, Expenditures, and Changes in Fund Balances - Capital Projects Fund - Budget to Actual	Statement 11	40
Statement of Revenues, Expenditures, and Changes in Fund Balances - Medical & Business Park Fund - Budget to Actual	Statement 12	41
Statement of Net Position - Proprietary Funds	Statement 13	42
Statement of Revenues, Expenditures, and Changes in Fund Net Position - Proprietary Funds	Statement 14	43
Statement of Cash Flows - Proprietary Funds	Statement 15	44
Notes to Financial Statements		47
Required Supplementary Information Other Than MD&A (Unaudited)		
Schedule of City's Proportionate Share of Net Pension Liability	Schedule 1	69
Combining and Individual Fund Statements and Schedules-Nonmajor Funds		
Combining Balance Sheet - Nonmajor Governmental Funds	Schedule 2	71
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds	Schedule 3	75

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 - EDA CED Loan Special Revenue Fund	Schedule 4	79
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - Cemetery Permanent Care Special Revenue Fund	Schedule 5	80
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - EDA Wild River Capital Expenditure	Schedule 6	81
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - EDA Wild River Reserve Fund	Schedule 7	82
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - \$655K G.O. Refunding Bonds, Series 2009A	Schedule 8	83
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - \$430K G.O. Improvement Bonds, Series 2009B	Schedule 9	84
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - \$405K General Obligation Improvement and Refunding Bonds, Series 2012A	Schedule 10	85
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - 1999 PFA Water G.O. Bond Debt Service Fund	Schedule 11	86
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - Lease Purchase - Public Works Property Fund	Schedule 12	87
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - G.O. Temporary Improvement 2015A	Schedule 13	88
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - Tax Increment Financing 2016	Schedule 14	89
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - Tax Abatement Financing Capital Project Fund	Schedule 15	90
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - DEED Grant Fund	Schedule 16	91
 Supplementary Financial Information		
Bond Schedule - \$655,000 G.O. Refunding Bonds, Series 2009A	Table 1	93
Bond Schedule - \$430,000 G.O. Improvement Bonds, Series 2009B	Table 2	94
Bond Schedule - \$405,000 GO Improvement & Refunding, Series 2012A	Table 3	95
Bond Schedule - \$401,500 G.O. Water Revenue Note	Table 4	96
Bond Schedule - \$4,275,000 EDA Gross Revenue Refunding Bonds, Series 2012 A&B	Table 5	97
Bond Schedule - \$340,000 Lease Purchase Public Works Building & Land	Table 6	98
Bond Schedule - \$1.2 G.O. Temporary Improvement Bond, Series 2015A	Table 7	99

CITY OF SANDSTONE, MINNESOTA

Table of Contents

FINANCIAL SECTION (Continued)	REFERENCE	PAGE
Other Reports		
Schedule of Expenditures of Federal Awards		102
Notes to the Schedule of Expenditures of Federal Awards		103
Schedule of Findings and Questioned Costs		104
Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance Required by Uniform Guidance		105
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		107

CITY OF SANDSTONE, MINNESOTA
INTRODUCTORY SECTION
December 31, 2016

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CITY OF SANDSTONE, MINNESOTA

ORGANIZATION

December 31, 2016

City Council

Peter Spartz Mayor
Phillip Kester Deputy Mayor
Tim Franklin Councilperson
Val Palmer Councilperson
Brandon Devlin Councilperson

Administration

Leaha Jackson City Administrator
Lois Newey Finance Officer

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CITY OF SANDSTONE, MINNESOTA
FINANCIAL SECTION
December 31, 2016

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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, 2016, and the related notes to financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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, 2016, and the respective changes in financial position and, where applicable cash flows, thereof, and respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.



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Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 11 through 20 and 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 schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements, and schedules and supplementary financial information, and the schedule of expenditures of federal awards, 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and other auditors. In our opinion, the combining and individual nonmajor fund financial statements, and the schedule of expenditures of federal awards, are 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, 2017 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, 2017

CITY OF SANDSTONE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2016

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CITY OF SANDSTONE, MINNESOTA
BASIC FINANCIAL STATEMENTS
For the Year Ended December 31, 2016

STATEMENT OF NET POSITION

December 31, 2016

(With Comparative Amounts for December 31, 2015)

	Governmental Activities	Business - Type Activities	Totals	
			2016	2015
ASSETS				
Cash & cash equivalents	\$ 2,975,772	\$ 765,908	\$ 3,741,680	\$ 3,973,765
Cash with Fiscal Agent	--	58,560	58,560	51,618
Investments	23,270	2,500,260	2,523,530	2,251,555
Accounts receivable	609,830	40,759	650,589	32,644
Delinquent property tax	33,412	--	33,412	41,298
Special assessments receivable	6,491	4,787	11,278	13,320
Special assessments deferred	47,156	--	47,156	65,309
Due from other funds	886,946	97,380	984,326	406,866
Bond discount and refunding	--	137,205	137,205	159,485
Prepaid expenses	16,902	11,928	28,830	33,528
Restricted cash	15,600	523,608	539,208	677,740
Restricted investments	631,227	--	631,227	591,194
Capital assets, net	<u>3,779,711</u>	<u>8,858,894</u>	<u>12,638,605</u>	<u>13,302,096</u>
Total assets	<u>9,026,317</u>	<u>12,999,289</u>	<u>22,025,606</u>	<u>21,600,418</u>
Deferred Outflow of Resources				
Related to Pensions	<u>166,157</u>	<u>--</u>	<u>166,157</u>	<u>23,549</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 9,192,474</u>	<u>\$ 12,999,289</u>	<u>\$ 22,191,763</u>	<u>\$ 21,623,967</u>
LIABILITIES				
Accounts payable	\$ 10,320	\$ 13,053	\$ 23,373	\$ 10,291
Due to other funds	984,326	--	984,326	406,866
Accrued expenses	29,414	--	29,414	32,178
Unearned revenue	53,647	4,787	58,434	11,246
Security deposits	--	38,055	38,055	38,055
Interest payable	50,308	1,312	51,620	52,047
Pension payable	373,497	--	373,497	248,761
Non current liabilities:				
Due within one year	1,345,000	220,000	1,565,000	187,859
Due in more than one year	870,000	3,225,000	4,095,000	5,875,000
Total liabilities	<u>3,716,512</u>	<u>3,502,207</u>	<u>7,218,719</u>	<u>6,862,303</u>
Deferred Inflow of Resources				
Related to Pensions	<u>50,207</u>	<u>--</u>	<u>50,207</u>	<u>30,158</u>
NET POSITION				
Net investment in Capital Assets	\$ 1,564,711	\$ 5,413,894	\$ 6,978,605	\$ 7,239,237
Nonspendable	16,902	149,133	166,035	214,093
Restricted	1,764,532	523,608	2,288,140	2,414,135
Committed	--	--	--	--
Assigned	864,340	--	864,340	1,575,911
Unassigned	1,215,270	3,410,447	4,625,717	3,288,130
Total Net Position	<u>\$ 5,425,755</u>	<u>\$ 9,497,082</u>	<u>\$ 14,922,837</u>	<u>\$ 14,731,506</u>

See Notes to Financial Statements.

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CITY OF SANDSTONE, MINNESOTA
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2016
(With Comparative Amounts for the Year Ended December 31, 2015)

<u>Functions/Programs</u>	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
General government	\$ 555,937	\$ 78,887	\$ 1,124,263	\$ 2,694,737
Public safety	332,409	67,222	--	--
Public works	221,610	--	--	--
Culture and recreation	29,101	21,531	--	--
Debt service	50,343	--	--	--
Capital expenditure	1,850,045	--	--	--
Unallocated	1,521,304	66,489	--	--
Total Governmental Activities	4,560,749	234,129	1,124,263	2,694,737
Business - Type Activities:				
Water utility	271,404	247,415	--	--
Sewer utility	330,322	324,517	--	--
Storm water	36,883	38,910	--	--
Wild River apartment	498,798	684,029	--	--
Total Business - Type Activities	1,137,407	1,294,871	--	--
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	
		2016	2015
\$ 3,341,950	\$ --	\$ 3,341,950	\$ 676,942
(265,187)	--	(265,187)	(257,394)
(221,610)	--	(221,610)	(224,613)
(7,570)	--	(7,570)	(37,815)
(50,343)	--	(50,343)	(45,463)
(1,850,045)	--	(1,850,045)	(764,146)
(1,454,815)	--	(1,454,815)	51,208
<u>(507,620)</u>	<u>--</u>	<u>(507,620)</u>	<u>(601,281)</u>
--	(23,989)	(23,989)	(13,962)
--	(5,805)	(5,805)	(28,136)
--	2,027	2,027	12,738
--	185,231	185,231	70,748
--	--	--	--
<u>--</u>	<u>157,464</u>	<u>157,464</u>	<u>41,388</u>
\$ 459,065	\$ --	\$ 459,065	\$ 452,828
26,865	--	26,865	--
--	--	--	--
12,939	42,618	55,557	54,192
(13,797)	13,797	--	--
<u>485,072</u>	<u>56,415</u>	<u>541,487</u>	<u>507,020</u>
(22,548)	213,879	191,331	(52,873)
--	--	--	(248,967)
<u>5,448,303</u>	<u>9,283,203</u>	<u>14,731,506</u>	<u>15,033,346</u>
<u>\$ 5,425,755</u>	<u>\$ 9,497,082</u>	<u>\$ 14,922,837</u>	<u>\$ 14,731,506</u>

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CITY OF SANDSTONE, MINNESOTA
FUND FINANCIAL STATEMENTS
December 31, 2016

CITY OF SANDSTONE, MINNESOTA
Governmental Funds
BALANCE SHEET
December 31, 2016

	General Fund	Capital Project Fund	EDA Fund	Minnesota DOT Grant
ASSETS				
Cash & cash equivalents	\$ 1,019,240	\$ 104,940	\$ 196,600	\$ --
Investments	--	--	--	--
Accounts receivable	2,923	--	--	269,891
Delinquent property tax	1,127	17,188	4	--
Special assessments	5,026	--	--	--
Special assessments deferred	--	--	--	--
Due from other funds	390,590	333,750	--	--
Bond discount	--	--	--	--
Prepaid expense	16,902	--	--	--
Restricted investments	--	--	--	--
Restricted cash	117,744	513,483	--	--
Total Assets	<u>\$ 1,553,552</u>	<u>\$ 969,361</u>	<u>\$ 196,604</u>	<u>\$ 269,891</u>
LIABILITIES & FUND BALANCE				
<u>Liabilities:</u>				
Cash in bank (overdraft)	\$ --	\$ --	\$ --	\$ --
Accounts payable	10,320	--	--	--
Accrued expenses	29,414	--	--	--
Due to other funds	--	218,079	158,500	269,891
Unearned revenue	6,153	17,188	4	--
Total Liabilities	<u>45,887</u>	<u>235,267</u>	<u>158,504</u>	<u>269,891</u>
<u>Fund Balance:</u>				
Nonspendable	16,902	--	--	--
Restricted	117,744	734,094	--	--
Committed	--	--	--	--
Assigned	745,382	--	38,100	--
Unassigned	627,637	--	--	--
Total fund balance	<u>1,507,665</u>	<u>734,094</u>	<u>38,100</u>	<u>--</u>
Total liabilities and fund balances	<u>\$ 1,553,552</u>	<u>\$ 969,361</u>	<u>\$ 196,604</u>	<u>\$ 269,891</u>

Medical and Business Park Fund	EDA Public Works Fund	Nonmajor Governmental Funds	Total Governmental Funds
\$ 826,240	\$ --	\$ 828,752	\$ 2,975,772
--	--	23,270	23,270
--	332,700	4,316	609,830
--	--	15,093	33,412
--	--	1,465	6,491
--	--	47,156	47,156
--	--	162,606	886,946
--	--	--	--
--	--	--	16,902
--	--	--	--
--	--	15,600	646,827
<u>\$ 826,240</u>	<u>\$ 332,700</u>	<u>\$ 1,098,258</u>	<u>\$ 5,246,606</u>
\$ --	\$ --	\$ --	--
--	--	--	10,320
--	--	--	29,414
--	333,750	4,106	984,326
--	--	63,714	87,059
<u>--</u>	<u>333,750</u>	<u>67,820</u>	<u>1,111,119</u>
--	--	--	16,902
--	--	1,030,438	1,882,276
--	--	--	--
826,240	--	--	1,609,722
--	(1,050)	--	626,587
<u>826,240</u>	<u>(1,050)</u>	<u>1,030,438</u>	<u>4,135,487</u>
<u>\$ 826,240</u>	<u>\$ 332,700</u>	<u>\$ 1,098,258</u>	<u>\$ 5,246,606</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, 2016
(With Comparative Amounts for December 31, 2015)

Statement 4

	2016	2015
Amounts reported for governmental activities in the Statements of Net Position are different because:		
Total Governmental Fund Balance	<u>\$ 4,135,487</u>	<u>\$ 3,941,733</u>
<p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.</p>		
Governmental Capital Assets	11,158,744	11,128,685
Less: Accumulated Depreciation	<u>(7,379,033)</u>	<u>(7,070,663)</u>
	<u>3,779,711</u>	<u>4,058,022</u>
<p>Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.</p>		
Deferred Revenue	<u>33,412</u>	<u>108,680</u>
<p>Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.</p>		
Bonds Payable	(2,215,000)	(2,354,000)
Bond Interest Payable	<u>(50,308)</u>	<u>(50,762)</u>
	<u>(2,265,308)</u>	<u>(2,404,762)</u>
Pension Related Items for GASB #68		
Deferred outflow of resources	166,157	23,549
Deferred inflow of resources	(50,207)	(30,158)
Net Pension Liability	<u>(373,497)</u>	<u>(248,761)</u>
	<u>(257,547)</u>	<u>(255,370)</u>
Net Position of Governmental Activities	<u>\$ 5,425,755</u>	<u>\$ 5,448,303</u>

See Notes to Financial Statements.

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CITY OF SANDSTONE, MINNESOTA
Governmental Funds
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
For the Year Ended December 31, 2016

	General Fund	Capital Project Fund	EDA Fund	Minnesota DOT Grant
REVENUES				
Property taxes	\$ 4,968	\$ 233,320	\$ 7,606	\$ --
Special assessments	5,083	--	--	--
Licenses & permits	67,222	--	--	--
Intergovernmental revenue	1,124,263	--	--	--
Grants	--	8,535	--	1,111,497
Charges for services	78,887	--	--	--
Court fines	1,032	--	--	--
Interest	9,008	1,940	390	--
Rent	21,531	--	--	--
Miscellaneous	39,269	500	111,899	--
Total Revenues	<u>1,351,263</u>	<u>244,295</u>	<u>119,895</u>	<u>1,111,497</u>
EXPENDITURES				
General government	373,516	--	--	--
Public safety	271,415	--	--	--
Public works	196,560	--	--	--
Culture & recreation	22,103	--	--	--
Miscellaneous	96,312	--	76,210	1,111,497
Debt service	--	--	--	--
Capital expenditures	--	71,058	14,266	--
Total Expenditures	<u>959,906</u>	<u>71,058</u>	<u>90,476</u>	<u>1,111,497</u>
Excess (deficiency) of revenues over (under) expenditures	391,357	173,237	29,419	--
OTHER FINANCING RESOURCES (USES)				
Bond proceeds	--	--	--	--
Transfer in	6,544	92,418	--	--
Transfer (out)	(126,781)	(6,543)	--	--
Total other financing sources (uses)	<u>(120,237)</u>	<u>85,875</u>	<u>--</u>	<u>--</u>
Net change in fund balances	271,120	259,112	29,419	--
Fund balances - beginning	<u>1,236,545</u>	<u>474,982</u>	<u>8,681</u>	<u>--</u>
Fund balances - ending	<u>\$ 1,507,665</u>	<u>\$ 734,094</u>	<u>\$ 38,100</u>	<u>\$ --</u>

See Notes to Financial Statements.

Medical and Business Park Fund	EDA Public Works Fund	Nonmajor Governmental Funds	Total Governmental Funds
\$ --	\$ --	\$ 186,306	\$ 432,200
--	--	21,782	26,865
--	--	--	67,222
--	--	--	1,124,263
--	1,374,705	200,000	2,694,737
--	--	--	78,887
--	--	--	1,032
--	--	1,601	12,939
--	--	--	21,531
--	--	17,799	169,467
<u>--</u>	<u>1,374,705</u>	<u>427,488</u>	<u>4,629,143</u>
--	--	--	373,516
--	--	--	271,415
--	--	--	196,560
--	--	--	22,103
--	--	234,137	1,518,156
--	--	189,797	189,797
390,018	1,374,703	--	1,850,045
<u>390,018</u>	<u>1,374,703</u>	<u>423,934</u>	<u>4,421,592</u>
(390,018)	2	3,554	207,551
--	--	--	--
--	--	78,262	177,224
--	--	(57,697)	(191,021)
<u>--</u>	<u>--</u>	<u>20,565</u>	<u>(13,797)</u>
(390,018)	2	24,119	193,754
<u>1,216,258</u>	<u>(1,052)</u>	<u>1,006,319</u>	<u>3,941,733</u>
<u>\$ 826,240</u>	<u>\$ (1,050)</u>	<u>\$ 1,030,438</u>	<u>\$ 4,135,487</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, 2016

(With Comparative Amounts for December 31, 2015)

	2016	2015
Amounts reported for governmental activities in the Statements of Activities are different because:		
Net Changes in Fund Balance - Total Governmental Funds	\$ 193,754	\$ 1,206,635
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	30,059	147,961
Depreciation expense	(308,370)	(320,737)
	(278,311)	(172,776)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Unearned revenue	33,412	6,606
Pension Related Items for GASB #68		
Pension Expense	(59,641)	(20,946)
Prior period adjustment - pension liability	--	(248,967)
State Aid (Pensions)	--	--
	(59,641)	(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	139,000	143,000
Accrued interest on bonds payable	(50,762)	(13,848)
	88,238	(1,070,848)
Change in net position of Governmental Activities	\$ (22,548)	\$ (300,296)

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, 2016

	Original and Amended Budget Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Taxes	\$ 17,896	\$ 4,968	\$ (12,928)
Special assessments	--	5,083	5,083
Licenses & permits	26,950	67,222	40,272
Intergovernmental revenue	1,085,400	1,124,263	38,863
Charges for services	91,000	100,418	9,418
Court fines	1,500	1,032	(468)
Miscellaneous	18,500	48,277	29,777
Total Revenues	<u>1,241,246</u>	<u>1,351,263</u>	<u>110,017</u>
EXPENDITURES			
General government:			
Mayor & council	3,000	2,172	(828)
Executive	192,500	208,414	15,914
Elections & voter registration	4,500	2,309	(2,191)
Finance administration	80,500	82,878	2,378
Legal fees	31,000	25,577	(5,423)
City engineer	27,800	22,298	(5,502)
City hall	32,350	21,784	(10,566)
Economic development	49,300	8,084	(41,216)
Total general government	<u>420,950</u>	<u>373,516</u>	<u>(47,434)</u>
Public Safety:			
Safety	3,000	1,113	(1,887)
Police protection	116,600	116,571	(29)
Fire protection	110,674	91,327	(19,347)
Building inspections	44,100	61,889	17,789
Animal control	1,550	515	(1,035)
Total public safety	<u>275,924</u>	<u>271,415</u>	<u>(4,509)</u>
Public works:			
Administration			
Employee services	207,100	171,015	(36,085)
Street lighting	30,000	25,545	(4,455)
Total public works	<u>237,100</u>	<u>196,560</u>	<u>(40,540)</u>
Culture & Recreation:			
Park and recreation	25,000	16,677	(8,323)
Library	5,000	4,677	(323)
Airport	--	749	749
Total culture & recreation	<u>30,000</u>	<u>22,103</u>	<u>(7,897)</u>

See Notes to Financial Statements.

Statement of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
 For the Year Ended December 31, 2016

	Original and Amended Budget Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
Expenditures (Continued)			
Miscellaneous			
Cemetery	11,600	11,194	(406)
Non-departmental	105,275	85,118	(20,157)
Total miscellaneous	<u>116,875</u>	<u>96,312</u>	<u>(20,563)</u>
Total expenditures	<u>1,080,849</u>	<u>959,906</u>	<u>(120,943)</u>
Excess of revenues over (under) expenditures	<u>160,397</u>	<u>391,357</u>	<u>230,960</u>
Other Financing Sources (Uses):			
Transfer in	--	6,544	6,544
Transfer (out)	(130,200)	(126,781)	3,419
Total other financing sources (uses)	<u>(130,200)</u>	<u>(120,237)</u>	<u>9,963</u>
Net change in fund balance	30,197	271,120	240,923
Fund balance - beginning	<u>1,236,545</u>	<u>1,236,545</u>	<u>--</u>
Fund balance - ending	<u>\$ 1,266,742</u>	<u>\$ 1,507,665</u>	<u>\$ 240,923</u>

See Notes to Financial Statements.

EDA Public Works Federal Grant Fund

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

For the Year Ended December 31, 2016

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Grants	\$ --	\$ 1,374,705	\$ 1,374,705
Total Revenues	<u>--</u>	<u>1,374,705</u>	<u>1,374,705</u>
EXPENDITURES			
Expense	--	1,374,703	1,374,703
Total Expenditures	<u>--</u>	<u>1,374,703</u>	<u>1,374,703</u>
Excess (deficiency) of revenues over (under) expenditures	--	2	2
Net change in fund balances	--	2	2
Fund Balance - beginning	<u>(1,052)</u>	<u>(1,052)</u>	<u>--</u>
Fund Balance - ending	<u>\$ (1,052)</u>	<u>\$ (1,050)</u>	<u>\$ 2</u>

CITY OF SANDSTONE, MINNESOTA
 Minnesota DOT Grant
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
 For the Year Ended December 31, 2016

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Interest earned	\$ --	\$ --	\$ --
Grants	--	1,111,497	1,111,497
Total Revenues	--	1,111,497	1,111,497
EXPENDITURES			
Miscellaneous	--	1,111,497	1,111,497
Total Expenditures	--	1,111,497	1,111,497
Excess (deficiency) of revenues over (under) expenditures	--	--	--
OTHER FINANCING SOURCES (USES)			
Transfer in	--	--	--
Transfer out	--	--	--
Total Other Financing Sources (Uses)	--	--	--
Net change in fund balance	--	--	--
Fund Balance - beginning	--	--	--
Fund Balance - ending	\$ --	\$ --	\$ --

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, 2016

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Property taxes	\$ 7,500	\$ 7,606	\$ 106
Interest earned	200	390	190
Sale of property	--	111,899	111,899
Total Revenues	<u>7,700</u>	<u>119,895</u>	<u>112,195</u>
EXPENDITURES			
Miscellaneous	7,500	76,210	68,710
Property acquisition	15,600	14,266	(1,334)
Total Expenditures	<u>23,100</u>	<u>90,476</u>	<u>67,376</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(15,400)</u>	<u>29,419</u>	<u>44,819</u>
OTHER FINANCING SOURCES (USES)			
Transfer in	--	--	--
Total Other Financing Sources (Uses)	<u>--</u>	<u>--</u>	<u>--</u>
Net change in fund balance	(15,400)	29,419	44,819
Fund Balance - beginning	<u>8,681</u>	<u>8,681</u>	<u>--</u>
Fund Balance - ending	<u>\$ (6,719)</u>	<u>\$ 38,100</u>	<u>\$ 44,819</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, 2016

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Property taxes	\$ 220,000	\$ 233,320	\$ 13,320
Special assessments	--	--	--
Interest earned	600	1,940	1,340
Grants	--	8,535	8,535
Miscellaneous	35,000	501	(34,499)
Total Revenues	<u>255,600</u>	<u>244,296</u>	<u>(11,304)</u>
EXPENDITURES			
Capital expenditures	<u>253,495</u>	<u>71,058</u>	<u>(182,437)</u>
Total Expenditures	<u>253,495</u>	<u>71,058</u>	<u>(182,437)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>2,105</u>	<u>173,238</u>	<u>171,133</u>
OTHER FINANCING SOURCES (USES)			
Transfer in	63,900	92,418	28,518
Transfer out	--	(6,544)	(6,544)
Total Other Financing Sources (Uses)	<u>63,900</u>	<u>85,874</u>	<u>21,974</u>
Net change in fund balance	66,005	259,112	193,107
Fund Balance - beginning	<u>474,982</u>	<u>474,982</u>	<u>--</u>
Fund Balance - ending	<u>\$ 540,987</u>	<u>\$ 734,094</u>	<u>\$ 193,107</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, 2016

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Interest earned	\$ --	\$ --	\$ --
Miscellaneous	3,910,000	--	(3,910,000)
Total Revenues	<u>3,910,000</u>	<u>--</u>	<u>(3,910,000)</u>
EXPENDITURES			
Capital expenditures	5,110,000	390,018	(4,719,982)
Total Expenditures	<u>5,110,000</u>	<u>390,018</u>	<u>(4,719,982)</u>
Excess (deficiency) of revenues over (under) expenditures	(1,200,000)	(390,018)	809,982
OTHER FINANCING SOURCES (USES)			
Transfer in	--	--	--
Total Other Financing Sources (Uses)	<u>--</u>	<u>--</u>	<u>--</u>
Net change in fund balance	(1,200,000)	(390,018)	809,982
Fund Balance - beginning	<u>1,216,258</u>	<u>1,216,258</u>	<u>--</u>
Fund Balance - ending	<u>\$ 16,258</u>	<u>\$ 826,240</u>	<u>\$ 809,982</u>

Proprietary Funds

STATEMENT OF NET POSITION

December 31, 2016

	Water Utility Fund	Sewer Utility Fund	Storm Water Fund	Wild River Apartment Fund	Total
ASSETS					
Current Assets:					
Cash & cash equivalents	\$ 161,584	\$ 191,510	\$ 131,902	\$ 280,912	\$ 765,908
Cash with fiscal agent	--	--	--	58,560	58,560
Investments	--	2,273,819	--	226,441	2,500,260
Accounts receivable	8,081	15,957	4,040	12,681	40,759
Due from other funds	--	97,380	--	--	97,380
Bond discount and refunding	--	--	--	137,205	137,205
Prepaid expenses	1,508	1,401	--	9,019	11,928
Special assessments receivable	1,915	2,872	--	--	4,787
Restricted cash	193,493	323,939	--	6,176	523,608
Total current assets	366,581	2,906,878	135,942	730,994	4,140,395
Noncurrent assets:					
Deferred charges	--	--	--	--	--
Capital assets:					
Land	--	--	--	157,015	157,015
Plant in service	4,841,344	10,003,208	1,000,924	4,262,555	20,108,031
Equipment and fixtures	--	90,106	--	--	90,106
Less: allowance for depreciation	(2,962,809)	(5,580,583)	(675,166)	(2,277,700)	(11,496,258)
Total noncurrent assets	1,878,535	4,512,731	325,758	2,141,870	8,858,894
Total Assets	\$ 2,245,116	\$ 7,419,609	\$ 461,700	\$ 2,872,864	\$ 12,999,289
LIABILITIES					
Current Liabilities:					
Accounts payable	\$ --	\$ --	\$ --	\$ 13,053	\$ 13,053
Bonds payable-current	--	--	--	46,172	46,172
Unearned revenue	1,915	2,872	--	--	4,787
Due to other funds	--	--	--	--	--
Interest payable	--	--	--	1,312	1,312
Security deposits	--	--	--	38,055	38,055
Total Current Liabilities	1,915	2,872	--	98,592	103,379
Noncurrent liabilities:					
Bonds payable	--	--	--	3,398,828	3,398,828
Total noncurrent liabilities	--	--	--	3,398,828	3,398,828
Total Liabilities	\$ 1,915	\$ 2,872	\$ --	\$ 3,497,420	\$ 3,502,207
NET POSITION					
Invested in capital assets, net of related debt	\$ 1,878,535	\$ 4,512,731	\$ 325,758	\$ (1,303,130)	\$ 5,413,894
Restricted for:					
Restricted assets	193,493	323,939	--	6,176	523,608
Prepaid items	--	1,401	--	146,224	147,625
Unrestricted	171,173	2,578,666	135,942	526,174	3,411,955
Total Net Position	\$ 2,243,201	\$ 7,416,737	\$ 461,700	\$ (624,556)	\$ 9,497,082

See Notes to Financial Statements.

Proprietary Funds

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

For the Year Ended December 31, 2016

	Water Utility Fund	Sewer Utility Fund	Storm Water Fund	Wild River Apartment Fund	Total
Operating revenues:					
Sales & charges for services	\$ 242,233	\$ 322,129	\$ 38,910	\$ 684,029	\$ 1,287,301
Miscellaneous	5,182	2,388	--	--	7,570
Total operating revenues	<u>247,415</u>	<u>324,517</u>	<u>38,910</u>	<u>684,029</u>	<u>1,294,871</u>
Operating expenses:					
Maintenance and operations	164,384	118,719	15,826	274,058	572,987
Depreciation	107,020	211,603	21,057	110,702	450,382
Total Operating Expenses	<u>271,404</u>	<u>330,322</u>	<u>36,883</u>	<u>384,760</u>	<u>1,023,369</u>
Operating Income (Loss)	<u>(23,989)</u>	<u>(5,805)</u>	<u>2,027</u>	<u>299,269</u>	<u>271,502</u>
Nonoperating revenues (expenses):					
Interest earned	1,015	41,295	289	19	42,618
Sale of Assets/Property	--	--	--	--	--
Interest expense	--	--	--	(114,038)	(114,038)
Total nonoperating revenues (expenses)	<u>1,015</u>	<u>41,295</u>	<u>289</u>	<u>(114,019)</u>	<u>(71,420)</u>
Net Income (Loss) Before Transfers and Contributions	(22,974)	35,490	2,316	185,250	200,082
Transfers in	--	--	--	57,697	57,697
Transfers out	<u>(38,000)</u>	<u>(500)</u>	<u>(5,400)</u>	<u>--</u>	<u>(43,900)</u>
Changes in net position	(60,974)	34,990	(3,084)	242,947	213,879
Total net position - beginning	<u>2,304,175</u>	<u>7,381,747</u>	<u>464,784</u>	<u>(867,503)</u>	<u>9,283,203</u>
Total net position - ending	<u>\$ 2,243,201</u>	<u>\$ 7,416,737</u>	<u>\$ 461,700</u>	<u>\$ (624,556)</u>	<u>\$ 9,497,082</u>

See Notes to Financial Statements.

Proprietary Funds

STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2016

	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	\$ 245,733	\$ 322,608	\$ 38,515	\$ 671,796	\$ 1,278,652
Cash payments to suppliers	(164,154)	(95,793)	(15,826)	(245,592)	(521,365)
Net Cash Provided (Used) by Operating Activities	<u>81,579</u>	<u>226,815</u>	<u>22,689</u>	<u>426,204</u>	<u>757,287</u>
<u>Cash Flows from Noncapital Financing Activities:</u>					
Transfers in	--	--	--	57,697	57,697
Transfers out	(38,000)	(500)	(5,400)	--	(43,900)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(38,000)</u>	<u>(500)</u>	<u>(5,400)</u>	<u>57,697</u>	<u>13,797</u>
<u>Cash Flows from Capital and Related Financing Activities:</u>					
Interest & fiscal charges paid on capital debt	--	--	--	(114,038)	(114,038)
Principal paid on capital debt	--	--	--	(215,000)	(215,000)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>--</u>	<u>--</u>	<u>--</u>	<u>(329,038)</u>	<u>(329,038)</u>
<u>Cash Flows from Investing Activities:</u>					
Property purchases	(35,232)	(12,093)	--	(17,835)	(65,160)
Purchased investments	--	--	--	(48,859)	(48,859)
Interest earned	1,015	41,295	289	19	42,618
Net Cash Provided (Used) by Investing Activities	<u>(34,217)</u>	<u>29,202</u>	<u>289</u>	<u>(66,675)</u>	<u>(71,401)</u>
Net Increase (Decrease) in Cash	9,362	255,517	17,578	88,188	370,645
Cash, January 1	<u>345,715</u>	<u>2,533,751</u>	<u>114,324</u>	<u>483,901</u>	<u>3,477,691</u>
Cash, December 31	<u>\$ 355,077</u>	<u>\$ 2,789,268</u>	<u>\$ 131,902</u>	<u>\$ 572,089</u>	<u>\$ 3,848,336</u>

See Notes to Financial Statements.

Proprietary Funds

STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2016

	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)	\$ (23,989)	\$ (5,805)	\$ 2,027	\$ 299,269	\$ 271,502
<u>Adjustments to Reconcile Operating Income (Loss) to</u>					
<u>Net Cash Provided (Used) by Operating Activities:</u>					
Depreciation	107,020	211,603	21,057	110,702	450,382
<u>Changes in Assets and Liabilities:</u>					
(Increase) decrease in accounts receivable	(1,682)	(1,909)	(395)	(12,233)	(16,219)
(Increase) decrease in due from other funds	--	22,738	--	--	22,738
(Increase) decrease in special assessments	4,242	2,217	--	--	6,459
(Increase) decrease in bond discount	--	--	--	21,986	21,986
(Increase) decrease in prepaid expenses	230	188	--	2,699	3,117
Increase (decrease) in accounts payable	--	--	--	--	--
Increase (decrease) in deferred revenue	(4,242)	(2,217)	--	3,753	(2,706)
Increase (decrease) in due to other funds	--	--	--	--	--
Increase (decrease) in security deposits	--	--	--	--	--
Increase (decrease) in interest payable	--	--	--	28	28
Total Adjustments	<u>105,568</u>	<u>232,620</u>	<u>20,662</u>	<u>126,935</u>	<u>485,785</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 81,579</u>	<u>\$ 226,815</u>	<u>\$ 22,689</u>	<u>\$ 426,204</u>	<u>\$ 757,287</u>

See Notes to Financial Statements.

CITY OF SANDSTONE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2016

CITY OF SANDSTONE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

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, 2016

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, 2016

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 *Minnesota DOT Grant fund* accounts for the resources accumulated and payments made related to the Grant.

The *Medical and Business Park fund* accounts for the resources accumulated and payments made related to the Medical Park.

The *EDA Public Works fund* accounts for the resources accumulated and payments made related to EDA Public works.

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, 2016

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, 2016

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, 2016

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

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, 2016

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, 2016, are as follows:

	Bank Balance	Carrying Amount
Insured or collateralized by securities held by the City or its agent in the City's name	\$ 5,035,696	\$ 4,963,515
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	\$ 5,035,696	\$ 4,963,515

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, 2016

NOTE 2: CASH AND INVESTMENTS (Continued)

B. Investments (Continued)

Investment balances as of December 31, 2016, are as follows:

	Fair Value
Members Cooperative Credit Union - CDs	\$ 23,269
USB	233,602
Citigroup Smith Barney	2,273,819
Total	\$ 2,530,690

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

Cash and cash equivalents	\$ 3,741,680
Cash with fiscal agent	58,560
Investments	2,523,530
Restricted cash	539,208
Restricted investments	631,227
Total	\$ 7,494,205

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, 2016, 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, 2016

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, 2016, and descriptions are as follows:

	Restricted Cash	Prepaid Items
General fund	\$ 117,744	\$ 16,902
Special revenue funds	15,600	--
Capital projects	513,483	--
Enterprise funds	523,608	11,928
	\$ 1,170,435	\$ 28,830

NOTE 3: DUE FROM OTHER GOVERNMENTAL UNITS

There are no amounts due from other governmental units at December 31, 2016.

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, 2016 are as follows:

CITY OF SANDSTONE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 4: LONG-TERM DEBT (Continued)

	Interest Rates	Maturity	Balance 12/31/16	Due Within One Year
<u>General Obligation Bonds:</u>				
G.O. Refunding 2009 Series A	2.00-4.20%	2024	\$ 355,000	\$ 40,000
G.O. Refunding 2009 Series B	3.25%	2020	100,000	25,000
PFA G.O. Water Revenue Note	2.11%	2019	74,000	24,000
\$340,000 Lease Purchase	4.309-5.41%	2026	241,000	21,000
G.O. Refunding 2012 Series A	.5-2.6%	2023	245,000	35,000
G.O. Temp Impr. Series 2015A	1.50%	2017	1,200,000	1,200,000
Total General Obligation			\$ 2,215,000	\$ 1,345,000
<u>Business-Type Activities:</u>				
EDA Refunding Bonds 2012	3-3.6%	2029	\$ 3,445,000	\$ 220,000
Total Business-Type Activities			\$ 3,445,000	\$ 220,000

The changes in the long-term debt of the City during 2016 are presented below:

	Balance 12/31/15	New Issues	Debt Retired	Balance 12/31/16
<u>Governmental Activities</u>				
G.O. Refunding 2009 Series A	\$ 390,000		\$ 35,000	\$ 355,000
G.O. Refunding 2009 Series B	120,000	--	20,000	100,000
PFA G.O. Water Revenue Note	98,000	--	24,000	74,000
\$340,000 Lease Purchase	261,000	--	20,000	241,000
G.O. Refunding 2012 Series A	285,000	--	40,000	245,000
G.O. Temp Impr Series 2015A	1,200,000	--	--	1,200,000
Total G.O. Debt	\$ 2,354,000	\$ --	\$ 139,000	\$ 2,215,000
<u>Business-Type Activities</u>				
EDA Refunding Bonds 2012	3,660,000	--	215,000	3,445,000
	\$ 3,660,000	\$ --	\$ 215,000	\$ 3,445,000

CITY OF SANDSTONE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 4: LONG-TERM DEBT (Continued)

The annual requirement to amortize all long-term debt outstanding as of December 31, 2016 including interest payments for the next five years, are summarized below:

Year Ending December 31	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2017	1,345,000	50,308	220,000	107,513
2018	162,000	28,023	225,000	100,838
2019	143,000	23,568	235,000	93,938
2020	124,000	18,981	240,000	86,813
2021	105,000	15,060	245,000	79,538
2022-2026	336,000	23,728	1,355,000	276,534
2027-2030	--	--	925,000	50,333
Total	<u>\$ 2,215,000</u>	<u>\$ 159,668</u>	<u>\$ 3,445,000</u>	<u>\$ 795,507</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, 2016

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 2016. 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 2016. The City of Sandstone's contributions to the GERF for the year ended December 31, 2016, were \$21,791. The City of Sandstone's contributions were equal to the required contributions as set by state statute.

3. Pensions Costs

At December 31, 2016, the City of Sandstone reported a liability of \$373,497 for its proportionate share of the GERF's net pension liability. The net pension liability was measured as of June 30, 2016, 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, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the City of Sandstone's proportion share was 0.0046% which was an increase/decrease of 0.0002% from its proportion measured as of June 30, 2015.

CITY OF SANDSTONE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 5: DEFINED BENEFIT PENSION PLAN (Continued)

A. Defined Benefit Pension Plan - Statewide(Continued)

3. Pension Costs (Continued)

For the year ended December 31, 2016, the City of Sandstone recognized pension expense of \$21,791 for its proportionate share of the GERS's pension expense.

At December 31, 2016, the City of Sandstone reported its proportionate share of the GERS's deferred outflows 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	--	30,689
Changes in actuarial assumptions	73,131	--
Difference between projected and actual investments earnings	71,627	--
Changes in proportion	--	19,518
Contribution paid to PERA subsequent to the measurement date	21,399	--
Total	\$ 166,157	\$ 50,207

\$21,399 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, 2017. 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
2017	23,668
2018	23,669
2019	33,721
2020	13,492
2021	--
Thereafter	--

4. Actuarial Assumptions

The total pension liability in the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50 % per year
Active Member Payroll Growth	3.25% per year
Investment Rate of Return	7.50%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disableds were based on RP-2014 tables for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be: 1% per year for all future years for GERS.

Actuarial assumptions used in the June 30, 2016, valuation were based on the results of actuarial experience studies. The most recent 4-year experience study in GERS was completed in 2015. 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, 2016

NOTE 5: DEFINED BENEFIT PENSION PLAN (Continued)

A. Defined Benefit Pension Plan - Statewide (Continued)

4. Actuarial Assumptions (Continued)

The following changes in actuarial assumptions occurred in 2016:

GERF

The assumed post-retirement benefit increase rate was changed from 1% per year through 2035 and 2.5% per year thereafter to 1% per year for all future years. The assumed investment return was changed from 7.9% to 7.5%. The single discount rate was changed from 7.9% to 7.5%. Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.5% for inflation.

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 in 2016 was 7.5%, a reduction from the 7.9% used in 2015. 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 plan members. 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, 2016

NOTE 5: DEFINED BENEFIT PENSION PLAN (Continued)

A. Defined Benefit Pension Plan - Statewide (Continued)

6. Pension Liability Sensitivity (Continued)

	1% Decrease in Discount Rate (6.5%)	Discount Rate (7.5%)	1% Increase in Discount Rate (8.5%)
City's proportionate share of the GERS net pension liability:	\$530,477	\$373,497	\$244,189

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.

CITY OF SANDSTONE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 6: 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, 2016, is as follows:

	Water	Sewer	Storm	Wild River
Operating revenues	\$ 247,415	\$ 324,517	\$ 38,910	\$ 684,029
Expenses:				
Depreciation	\$ 107,020	\$ 211,603	\$ 21,057	\$ 110,702
Other	202,384	119,219	21,226	388,096
Total expenses	\$ 309,404	\$ 330,822	\$ 42,283	\$ 498,798
Nonoperating revenues (expenses)	\$ 1,015	\$ 41,295	\$ 289	\$ 57,716
Net income (loss)	\$ (60,974)	\$ 34,990	\$ (3,084)	\$ 242,947
Total assets	\$ 2,245,116	\$ 7,419,609	\$ 461,700	\$ 2,872,864
Fund equity	\$ 2,243,201	\$ 7,416,737	\$ 461,700	\$ (624,556)
Capital expenditures - net	\$ 35,232	\$ 12,093	\$ --	\$ 17,835

CITY OF SANDSTONE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 7: DEFICIT FUND BALANCES

There were two funds with a deficit fund balance at the individual fund level at December 31, 2016.

Capital Project-EDA Public Works	\$ (1,050)
Capital Project-Tax Increment Financing	(4,106)
Enterprise - Wild River Apartments	<u>(624,556)</u>
	<u><u>\$ (629,712)</u></u>

NOTE 8: APPROPRIATIONS/EXPENDITURES OVER REVENUES

Expenditures exceeded revenues in certain individual funds For the Year Ended December 31, 2016, as follows:

	<u>Expenditures</u>	<u>Revenues</u>	<u>Difference</u>
Debt Service - 1999 PFA Water GO	26,068	34	26,034
Debt Service - \$1.2M GO Temp Improvement 2015A	14,650	41	14,609
Debt Service - \$340,000 Lease Purchase	30,915	23	30,892
Debt Service - \$405,000 2012A GO Improvement	44,965	42,198	2,767
Debt Service - \$665,000 GO Refunding	50,368	39,509	10,859
Tax Abatement	5,083	1,116	3,967
EDA Wild River Capital Expense	24,204	15,817	8,387
Medical and Business Park	390,018	--	390,018
Tax Increment Financing	4,106	--	4,106

NOTE 9: RISK MANAGEMENT

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

NOTE 10: EXCESS EXPENDITURES OVER BUDGET

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

	<u>Expenditures</u>	<u>Budget</u>	<u>Variance</u>
Tax Abatement	\$ 5,083	\$ 4,320	\$ 763
EDA Public Works Federal Grant Fund	1,374,703	--	1,374,703
DEED Grant	200,000	--	200,000
Tax Increment Financing	4,106	--	4,106
Minnesota DOT Grant	1,111,497	--	1,111,497
EDA Special Revenue	90,476	23,100	67,376

CITY OF SANDSTONE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 11: INTERFUND RECEIVABLES AND PAYABLES

The amounts due to and due from other funds at December 31, 2016, at the individual fund level are summarized below:

Funds	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General	\$ 390,590	\$ --
Capital Projects:		
Capital Projects	333,750	218,079
Minnesota DOT Grant	--	269,891
Tax Increment	--	4,106
Enterprise Fund:		
Sewer	97,380	--
Debt Service Fund:		
GO Temp Impr 1.2m	4,106	--
Special Revenue:		
EDA CED Loan	158,500	--
EDA Public Works	--	333,750
EDA	--	158,500
	<u> </u>	<u> </u>
Totals	<u>\$ 984,326</u>	<u>\$ 984,326</u>

NOTE 12: CONTINGENCIES AND COMMITMENTS

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

CITY OF SANDSTONE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 13: CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2016, are as follows:

<u>Governmental Activities</u>	Beginning Balances	Increase	Decrease	Ending Balances
Capital Assets:				
Land	\$ 627,868	\$ --	\$ --	\$ 627,868
Infrastructure	7,503,370	30,059	--	7,533,429
Buildings and improvements	1,833,365	--	--	1,833,365
Equipment	1,164,082	--	--	1,164,082
Total Capital Assets	<u>11,128,685</u>	<u>30,059</u>	<u>--</u>	<u>11,158,744</u>
Less: Accumulated Depreciation for:				
Infrastructure	5,104,414	197,742	--	5,302,156
Buildings and improvements	1,161,693	46,053	--	1,207,746
Equipment	804,256	64,875	--	869,131
Total Accumulated Depreciation	<u>7,070,363</u>	<u>308,670</u>	<u>--</u>	<u>7,379,033</u>
Total Capital Assets, Net of Depreciation	<u>\$ 4,058,322</u>	<u>\$ (278,611)</u>	<u>\$ --</u>	<u>\$ 3,779,711</u>
 <u>Business - Type Activities</u>				
Capital Assets:				
Land	\$ 157,015	\$ --	\$ --	\$ 157,015
Buildings and improvements	20,042,828	47,368	--	20,090,196
Equipment	90,106	--	--	90,106
Total Capital Assets	<u>20,289,949</u>	<u>47,368</u>	<u>--</u>	<u>20,337,317</u>
Less: Accumulated Depreciation for:				
Buildings and improvements	10,996,305	324,888	--	11,321,193
Equipment	49,570	14,794	--	64,364
Total Accumulated Depreciation	<u>11,045,875</u>	<u>339,682</u>	<u>--</u>	<u>11,385,557</u>
Business - Type Capital Assets, Net	<u>\$ 9,244,074</u>	<u>\$ (292,314)</u>	<u>\$ --</u>	<u>\$ 8,951,760</u>

CITY OF SANDSTONE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
 December 31, 2016

NOTE 13: CAPITAL ASSETS (Continued)

Depreciation expense was charged to function/programs as follows:

Governmental Activities	
General government	\$ 212,480
Public safety	60,994
Public works	25,050
Culture and recreation	6,998
Unallocated	3,148
Total Depreciation Expense - Governmental Activities	\$ 308,670
Business - Type Activities	
Water utility	107,020
Sewer utility	211,603
Storm Water	21,057
Wild River Apartments	--
Total Depreciation Expense - Business - Type Activities	\$ 339,680

NOTE 14: GASB 54 FUND BALANCE REPORTING

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

1. *Nonspendable*, such as fund balance associated with inventories, prepaids, long-term loans and notes receivable, and property held for resale (unless the proceeds are restricted, committed, or assigned).
2. *Restricted* fund balance category includes amounts that can be spent only for specific purposes stipulated by constitution, external resource providers, or through enabling legislation.
3. *Committed* fund balance classification includes amounts that can be used only for specific purposes determined by a formal action of the City Council (the City's highest level of decision making authority).
4. *Assigned* fund balance classification is intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed.
5. *Unassigned* fund balance is the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications.

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

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

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City of Sandstone, Minnesota
REQUIRED SUPPLEMENTARY INFORMATION OTHER
THAN MANAGEMENT'S DISCUSSION AND
ANALYSIS (UNAUDITED)
December 31, 2016

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, 2016

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%
2016	0.0046%	\$ 373,497	\$ 290,544	128.6%	63.8%

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%
2016	\$ 21,791	\$ 21,791	\$ --	\$ 290,544	7.50%

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, 2016

CITY OF SANDSTONE, MINNESOTA
 Nonmajor Governmental Funds
COMBINING BALANCE SHEET
 December 31, 2016

	Special Revenue Funds			
	Cemetery Permanent Care	EDA Wild River Capital Expense	EDA Wild River Reserve	EDA CED Special Revenue
ASSETS				
Cash & cash equivalents	\$ 94,511	\$ 96,404	\$ 219,887	\$ 178,499
Investments	23,270	--	--	--
Accounts receivable	--	--	--	4,316
Delinquent property tax	--	--	8,362	--
Special assessment	--	--	--	--
Special assessment deferred	--	--	--	--
Due from other funds	--	--	--	158,500
Bond discount	--	--	--	--
Restricted cash	--	--	--	15,600
Total assets	<u>\$ 117,781</u>	<u>\$ 96,404</u>	<u>\$ 228,249</u>	<u>\$ 356,915</u>
LIABILITIES AND FUND BALANCE				
<u>Liabilities:</u>				
Cash in bank (overdraft)	\$ --	\$ --	\$ --	\$ --
Due to other funds	--	--	--	--
Unearned revenue	--	--	8,362	--
Total liabilities	<u>--</u>	<u>--</u>	<u>8,362</u>	<u>--</u>
<u>Fund Balance:</u>				
Reserved	<u>117,781</u>	<u>96,404</u>	<u>219,887</u>	<u>356,915</u>
Total fund balance	<u>117,781</u>	<u>96,404</u>	<u>219,887</u>	<u>356,915</u>
Total liabilities and fund balance	<u>\$ 117,781</u>	<u>\$ 96,404</u>	<u>\$ 228,249</u>	<u>\$ 356,915</u>

Special Revenue Total	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
\$ 589,301	\$ 3,656	\$ 61,394	\$ 69,596	\$ 97,561
23,270	--	--	--	--
4,316	--	--	--	--
8,362	--	3,194	1,505	2,032
--	--	--	1,465	--
--	--	--	--	47,156
158,500	--	--	--	--
--	--	--	--	--
15,600	--	--	--	--
<u>\$ 799,349</u>	<u>\$ 3,656</u>	<u>\$ 64,588</u>	<u>\$ 72,566</u>	<u>\$ 146,749</u>
\$ --	\$ --	\$ --	\$ --	\$ --
--	--	--	--	--
8,362	--	3,194	2,970	49,188
<u>8,362</u>	<u>--</u>	<u>3,194</u>	<u>2,970</u>	<u>49,188</u>
790,987	3,656	61,394	69,596	97,561
<u>790,987</u>	<u>3,656</u>	<u>61,394</u>	<u>69,596</u>	<u>97,561</u>
<u>\$ 799,349</u>	<u>\$ 3,656</u>	<u>\$ 64,588</u>	<u>\$ 72,566</u>	<u>\$ 146,749</u>

CITY OF SANDSTONE, MINNESOTA
 Nonmajor Governmental Funds
COMBINING BALANCE SHEET
 December 31, 2016

	Debt Service Funds			Capital Project
	General Obligation Temp Impr 1.2M 2015A	\$340,000 Lease Purchase Public Works	Debt Service Total	Tax Increment Financing
ASSETS				
Cash & cash equivalents	\$ 4,946	\$ 2,298	\$ 239,451	\$ --
Investments	--	--	--	--
Accounts receivable	--	--	--	--
Delinquent property tax	--	--	6,731	--
Special assessment	--	--	1,465	--
Special assessment deferred	--	--	47,156	--
Due from other funds	4,106	--	4,106	--
Bond discount	--	--	--	--
Restricted cash	--	--	--	--
Total Assets	\$ 9,052	\$ 2,298	\$ 298,909	\$ --
LIABILITIES AND FUND BALANCE				
<u>Liabilities:</u>				
Cash in bank (overdraft)	\$ --	\$ --	\$ --	\$ --
Due to other funds	--	--	--	4,106
Deferred revenue	--	--	55,352	--
Total Liabilities	--	--	55,352	4,106
<u>Fund Balance:</u>				
Reserved	9,052	2,298	243,557	(4,106)
Total Fund Balance	9,052	2,298	243,557	(4,106)
Total Liabilities and Fund Balance	\$ 9,052	\$ 2,298	\$ 298,909	\$ --

Capital Project Funds			
Tax Abatement	DEED Public Works Grant	Capital Projects Total	Total Nonmajor Governmental Funds
\$ --	\$ --	\$ --	\$ 828,752
--	--	--	23,270
--	--	--	4,316
--	--	--	15,093
--	--	--	1,465
--	--	--	47,156
--	--	--	162,606
--	--	--	--
--	--	--	15,600
<u>\$ --</u>	<u>\$ --</u>	<u>\$ -</u>	<u>1,098,258</u>
\$ --	\$ --	\$ --	\$ --
--	--	4,106	4,106
--	--	--	63,714
<u>--</u>	<u>--</u>	<u>4,106</u>	<u>67,820</u>
--	--	(4,106)	1,030,438
--	--	(4,106)	1,030,438
<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 1,098,258</u>

CITY OF SANDSTONE, MINNESOTA
 Nonmajor Governmental Funds
Combined Statement of Revenues, Expenditures and Changes in Fund Balance
 For the Year Ended December 31, 2016

	Special Revenue Funds			
	Cemetery Permanent Care	EDA Wild River Capital Expense	EDA Wild River Reserve	EDA CED Special Revenue
REVENUES				
Property tax	\$ --	\$ --	\$ 102,762	\$ --
Interest	463	217	--	453
Special assessments	--	--	--	--
Miscellaneous	700	15,600	383	--
Total Revenues	<u>1,163</u>	<u>15,817</u>	<u>103,145</u>	<u>453</u>
EXPENDITURES				
Contractual services	--	--	--	--
Bond principal	--	--	--	--
Interest	--	--	--	--
Miscellaneous	--	24,204	--	--
Total Expenditures	<u>--</u>	<u>24,204</u>	<u>--</u>	<u>--</u>
Excess (deficiency) of revenue over (under) expenditures	<u>1,163</u>	<u>(8,387)</u>	<u>103,145</u>	<u>453</u>
OTHER FINANCING SOURCES (USES)				
Transfer in	--	--	--	--
Transfer out	--	--	(57,697)	--
Total Other Financing Source (uses)	<u>--</u>	<u>--</u>	<u>(57,697)</u>	<u>--</u>
Net change in fund balances	1,163	(8,387)	45,448	453
Fund Balances - beginning	<u>116,618</u>	<u>104,791</u>	<u>174,439</u>	<u>356,462</u>
Fund Balances - ending	<u>\$ 117,781</u>	<u>\$ 96,404</u>	<u>\$ 219,887</u>	<u>\$ 356,915</u>

Special Revenue Total	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
\$ 102,762	\$ --	\$ 39,302	\$ 18,607	\$ 25,635
1,133	34	80	130	160
--	--	124	5,255	16,403
16,683	--	--	--	--
<u>120,578</u>	<u>34</u>	<u>39,506</u>	<u>23,992</u>	<u>42,198</u>
--	--	--	--	--
--	24,000	35,000	20,000	40,000
--	2,068	14,624	3,575	4,965
24,204	--	744	--	--
<u>24,204</u>	<u>26,068</u>	<u>50,368</u>	<u>23,575</u>	<u>44,965</u>
<u>96,374</u>	<u>(26,034)</u>	<u>(10,862)</u>	<u>417</u>	<u>(2,767)</u>
--	26,000	12,000	--	5,400
(57,697)	--	--	--	--
<u>(57,697)</u>	<u>26,000</u>	<u>12,000</u>	<u>--</u>	<u>5,400</u>
38,677	(34)	1,138	417	2,633
<u>752,310</u>	<u>3,690</u>	<u>60,256</u>	<u>69,179</u>	<u>94,928</u>
<u>\$ 790,987</u>	<u>\$ 3,656</u>	<u>\$ 61,394</u>	<u>\$ 69,596</u>	<u>\$ 97,561</u>

CITY OF SANDSTONE, MINNESOTA
 Nonmajor Governmental Funds
Combined Statement of Revenues, Expenditures and Changes in Fund Balance
 For the Year Ended December 31, 2016

	Debt Service Funds			Capital Project
	General Obligation Temp Impr 1.2M 2015A	\$340,000 Lease Purchase Public Works	Debt Service Total	Tax Increment Financing
REVENUES				
Property taxes	\$ --	\$ --	\$ 83,544	\$ --
Interest	41	23	468	--
Special assessments	--	--	21,782	--
Miscellaneous	--	--	--	--
Total Revenues	41	23	105,794	--
EXPENDITURES				
Contractual services	--	--	--	4,106
Bond principal	--	20,000	139,000	--
Interest	14,650	10,915	50,797	--
Miscellaneous	--	--	744	--
Total Expenditures	14,650	30,915	190,541	4,106
Excess (deficiency) of revenues over (under) expenditures	(14,609)	(30,892)	(84,747)	(4,106)
OTHER FINANCING SOURCES (USES)				
Transfer in	--	31,900	75,300	--
Transfer out	--	--	--	--
Total Other Financing Sources (uses)	--	31,900	75,300	--
Net change in fund balances	(14,609)	1,008	(9,447)	(4,106)
Fund balance - beginning	23,661	1,290	253,004	--
Fund balances - ending	\$ 9,052	\$ 2,298	\$ 243,557	\$ (4,106)

Capital Project Funds			
Tax Abatement	DEED Public Works Grant	Capital Projects Total	Total Nonmajor Governmental Funds
\$ --	\$ --	\$ --	\$ 186,306
--	--	--	1,601
--	--	--	21,782
1,116	200,000	201,116	217,799
<u>1,116</u>	<u>200,000</u>	<u>201,116</u>	<u>427,488</u>
5,083	--	9,189	9,189
--	--	--	139,000
--	--	--	50,797
--	200,000	200,000	224,948
<u>5,083</u>	<u>200,000</u>	<u>209,189</u>	<u>423,934</u>
<u>(3,967)</u>	<u>--</u>	<u>(8,073)</u>	<u>3,554</u>
2,962	--	2,962	78,262
--	--	--	(57,697)
<u>2,962</u>	<u>--</u>	<u>2,962</u>	<u>20,565</u>
(1,005)	--	(5,111)	24,119
<u>1,005</u>	<u>--</u>	<u>1,005</u>	<u>1,006,319</u>
<u>\$ --</u>	<u>\$ --</u>	<u>\$ (4,106)</u>	<u>\$ 1,030,438</u>

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, 2016

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Interest earned	\$ 700	\$ 453	\$ (247)
Miscellaneous	--	--	--
Total Revenues	<u>700</u>	<u>453</u>	<u>(247)</u>
EXPENDITURES			
Expenditures	--	--	--
Total Expenditures	<u>--</u>	<u>--</u>	<u>--</u>
Excess (deficiency) of revenues over (under) expenditures	700	453	(247)
Fund Balance - beginning	<u>356,462</u>	<u>356,462</u>	<u>--</u>
Fund Balance - ending	<u>\$ 357,162</u>	<u>\$ 356,915</u>	<u>\$ (247)</u>

CITY OF SANDSTONE, MINNESOTA
Cemetery Permanent Care Special Revenue Fund

Schedule 5

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
For the Year Ended December 31, 2016

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Interest earned	\$ 250	\$ 463	\$ 213
Miscellaneous	2,500	700	(1,800)
Total Revenues	<u>2,750</u>	<u>1,163</u>	<u>(1,587)</u>
EXPENDITURES			
Expenditures	--	--	--
Total Expenditures	<u>--</u>	<u>--</u>	<u>--</u>
Excess (deficiency) of revenues over (under) expenditures	2,750	1,163	(1,587)
Fund Balance - beginning	<u>116,618</u>	<u>116,618</u>	<u>--</u>
Fund Balance - ending	<u>\$ 119,368</u>	<u>\$ 117,781</u>	<u>\$ (1,587)</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, 2016

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Interest earned	\$ 200	\$ 217	\$ 17
Property tax	35,000	--	(35,000)
Miscellaneous	15,600	15,600	--
Total Revenues	<u>50,800</u>	<u>15,817</u>	<u>(34,983)</u>
EXPENDITURES			
Miscellaneous	15,800	24,204	8,404
Total Expenditures	<u>15,800</u>	<u>24,204</u>	<u>8,404</u>
Excess (deficiency) of revenues over (under) expenditures	<u>35,000</u>	<u>(8,387)</u>	<u>(43,387)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	--	--	--
Total other financing sources (uses)	<u>--</u>	<u>--</u>	<u>--</u>
Net change in fund balances	35,000	(8,387)	(43,387)
Fund Balance - beginning	<u>104,791</u>	<u>104,791</u>	<u>--</u>
Fund Balance - ending	<u>\$ 139,791</u>	<u>\$ 96,404</u>	<u>\$ (43,387)</u>

EDA Wild River Reserve Fund

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

For the Year Ended December 31, 2016

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Property tax	\$ 100,000	\$ 102,762	\$ 2,762
Miscellaneous	--	383	383
Total Revenues	<u>100,000</u>	<u>103,145</u>	<u>3,145</u>
EXPENDITURES			
Expenditures	--	--	--
Total Expenditures	<u>--</u>	<u>--</u>	<u>--</u>
Excess (deficiency) of revenues over (under) expenditures	<u>100,000</u>	<u>103,145</u>	<u>3,145</u>
OTHER FINANCING SOURCES (USES)			
Transfers (out)	(100,000)	(57,697)	42,303
Total other financing sources (uses)	<u>(100,000)</u>	<u>(57,697)</u>	<u>42,303</u>
Net change in fund balances	--	45,448	45,448
Fund Balance - beginning	<u>174,439</u>	<u>174,439</u>	<u>--</u>
Fund Balance - ending	<u>\$ 174,439</u>	<u>\$ 219,887</u>	<u>\$ 45,448</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, 2016

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Property taxes	\$ 38,200	\$ 39,302	\$ 1,102
Special assessments	--	124	124
Interest	--	80	80
Total Revenues	<u>38,200</u>	<u>39,506</u>	<u>1,306</u>
EXPENDITURES			
Bond principal	35,000	35,000	--
Interest	14,700	14,624	(76)
Fiscal agent fees	450	744	294
Total Expenditures	<u>50,150</u>	<u>50,368</u>	<u>218</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(11,950)</u>	<u>(10,862)</u>	<u>1,088</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	12,000	12,000	--
Total other financing sources (uses)	<u>12,000</u>	<u>12,000</u>	<u>--</u>
Net change in fund balances	50	1,138	1,088
Fund Balance - beginning	<u>60,256</u>	<u>60,256</u>	<u>--</u>
Fund Balance - ending	<u>\$ 60,306</u>	<u>\$ 61,394</u>	<u>\$ 1,088</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, 2016

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Property tax	\$ 18,000	\$ 18,607	\$ 607
Special Assessments	5,200	5,255	55
Interest	--	130	130
Total Revenues	<u>23,200</u>	<u>23,992</u>	<u>792</u>
EXPENDITURES			
Bond principle	20,000	20,000	--
Interest	3,100	3,575	475
Total Expenditures	<u>23,100</u>	<u>23,575</u>	<u>475</u>
Excess (deficiency) of revenues over (under) expenditures	<u>100</u>	<u>417</u>	<u>317</u>
Net change in fund balances	100	417	317
Fund Balance - beginning	<u>69,179</u>	<u>69,179</u>	<u>--</u>
Fund Balance - ending	<u>\$ 69,279</u>	<u>\$ 69,596</u>	<u>\$ 317</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, 2016

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Property taxes	\$ 24,300	\$ 25,635	\$ 1,335
Special assessments	18,800	16,403	(2,397)
Interest	--	160	160
Total Revenues	<u>43,100</u>	<u>42,198</u>	<u>(902)</u>
EXPENDITURES			
Bond principal	40,000	40,000	--
Interest	5,250	4,965	(285)
Agent fees	--	--	--
Total Expenditures	<u>45,250</u>	<u>44,965</u>	<u>(285)</u>
Excess (deficiency) of revenues over (under) expenditures	(2,150)	(2,767)	(617)
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	3,250	2,633	(617)
Fund Balance - beginning	<u>94,928</u>	<u>94,928</u>	<u>--</u>
Fund Balance - ending	<u>\$ 98,178</u>	<u>\$ 97,561</u>	<u>\$ (617)</u>

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

Schedule 11

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
For the Year Ended December 31, 2016

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Interest	\$ --	\$ 34	\$ 34
Total Revenues	<u>--</u>	<u>34</u>	<u>34</u>
EXPENDITURES			
Bond principal	24,000	24,000	--
Interest	2,100	2,068	(32)
Total Expenditures	<u>26,100</u>	<u>26,068</u>	<u>(32)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(26,100)</u>	<u>(26,034)</u>	<u>66</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	(100)	(34)	66
Fund Balance - beginning	<u>3,690</u>	<u>3,690</u>	<u>--</u>
Fund Balance - ending	<u>\$ 3,590</u>	<u>\$ 3,656</u>	<u>\$ 66</u>

CITY OF SANDSTONE, MINNESOTA
 \$340,000 Lease Purchase - Public Works Property - 2011
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
 For the Year Ended December 31, 2016

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Interest	\$ --	\$ 23	\$ (23)
Total Revenues	<u>--</u>	<u>23</u>	<u>(23)</u>
EXPENDITURES			
Bond principal	20,000	20,000	--
Interest	11,900	10,915	(985)
Total Expenditures	<u>31,900</u>	<u>30,915</u>	<u>(985)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(31,900)</u>	<u>(30,892)</u>	<u>(1,008)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	31,900	31,900	--
Total other financing sources (uses)	<u>31,900</u>	<u>31,900</u>	<u>--</u>
Net change in fund balances	--	1,008	(1,008)
Fund Balance - beginning	<u>1,290</u>	<u>1,290</u>	<u>--</u>
Fund Balance - ending	<u>\$ 1,290</u>	<u>\$ 2,298</u>	<u>\$ (1,008)</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, 2016

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Bond proceeds	\$ --	\$ --	\$ --
Interest	--	41	(41)
Total Revenues	<u>--</u>	<u>41</u>	<u>(41)</u>
EXPENDITURES			
Bond principal	--	--	--
Interest	14,650	14,650	--
Total Expenditures	<u>14,650</u>	<u>14,650</u>	<u>--</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(14,650)</u>	<u>(14,609)</u>	<u>(41)</u>
Net change in fund balances	(14,650)	(14,609)	(41)
Fund Balance - beginning	<u>23,661</u>	<u>23,661</u>	<u>--</u>
Fund Balance - ending	<u>\$ 9,011</u>	<u>\$ 9,052</u>	<u>\$ (41)</u>

CITY OF SANDSTONE, MINNESOTA
Tax Increment Financing 2016
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
For the Year Ended December 31, 2016

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Miscellaneous	\$ --	\$ --	\$ --
Total Revenues	<u>--</u>	<u>--</u>	<u>--</u>
EXPENDITURES			
Contractual Services	--	4,106	4,106
Total Expenditures	<u>--</u>	<u>4,106</u>	<u>4,106</u>
Excess (deficiency) of revenues over (under) expenditures	--	(4,106)	(4,106)
OTHER FINANCING SOURCES (USES)			
Transfers in	--	--	--
Total other financing sources (uses)	<u>--</u>	<u>--</u>	<u>--</u>
Net change in fund balances	--	(4,106)	(4,106)
Fund Balance - beginning	<u>--</u>	<u>--</u>	<u>--</u>
Fund Balance - ending	<u>\$ --</u>	<u>\$ (4,106)</u>	<u>\$ --</u>

CITY OF SANDSTONE, MINNESOTA
Tax Abatement Financing Capital Project Fund

Schedule 15

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
For the Year Ended December 31, 2016

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Miscellaneous	\$ 1,800	\$ 1,116	\$ (684)
Total Revenues	<u>1,800</u>	<u>1,116</u>	<u>(684)</u>
EXPENDITURES			
Contractual Services	4,320	5,083	763
Total Expenditures	<u>4,320</u>	<u>5,083</u>	<u>763</u>
Excess (deficiency) of revenues over (under) expenditures	(2,520)	(3,967)	(1,447)
OTHER FINANCING SOURCES (USES)			
Transfers in	2,700	2,962	(262)
Total other financing sources (uses)	<u>2,700</u>	<u>2,962</u>	<u>(262)</u>
Net change in fund balances	180	(1,005)	(1,709)
Fund Balance - beginning	<u>1,005</u>	<u>1,005</u>	<u>--</u>
Fund Balance - ending	<u>\$ 1,185</u>	<u>\$ --</u>	<u>\$ --</u>

CITY OF SANDSTONE, MINNESOTA
DEED Grant Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
For the Year Ended December 31, 2016

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Grants	\$ --	\$ 200,000	\$ 200,000
Total Revenues	<u>--</u>	<u>200,000</u>	<u>200,000</u>
EXPENDITURES			
Expense	--	200,000	200,000
Total Expenditures	<u>--</u>	<u>200,000</u>	<u>200,000</u>
Excess (deficiency) of revenues over (under) expenditures	--	--	--
Net change in fund balances	--	--	--
Fund Balance - beginning	<u>--</u>	<u>--</u>	<u>--</u>
Fund Balance - ending	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>

CITY OF SANDSTONE, MINNESOTA
SUPPLEMENTARY FINANCIAL INFORMATION
December 31, 2016

CITY OF SANDSTONE, MINNESOTA
 \$655,000 General Obligation Refunding Bonds, Series 2009A
STATEMENT OF BOND AND INTEREST MATURITIES
 December 31, 2016

Table 1

<u>Maturity</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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>\$ 355,000.00</u>	<u>\$ 59,052.50</u>	<u>\$ 414,052.50</u>

CITY OF SANDSTONE, MINNESOTA
 \$430,000 General Obligation Improvement Bonds, Series 2009B
STATEMENT OF BOND AND INTEREST MATURITIES
 December 31, 2016

Table 2

<u>Maturity</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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>\$ 100,000.00</u>	<u>\$ 6,500.00</u>	<u>\$ 106,500.00</u>

CITY OF SANDSTONE, MINNESOTA
 \$405,000 General Obligation Improvement & Refunding Bond, Series 2012A
STATEMENT OF BOND AND INTEREST MATURITIES
 December 31, 2016

Table 3

<u>Maturity</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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>\$ 245,000.00</u>	<u>\$ 18,527.50</u>	<u>\$ 263,527.50</u>

CITY OF SANDSTONE, MINNESOTA
 \$401,500 General Obligation Water Revenue Note
STATEMENT OF BOND AND INTEREST MATURITIES
 December 31, 2016

Table 4

<u>Maturity</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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>\$ 74,000.00</u>	<u>\$ 3,143.90</u>	<u>\$ 77,143.90</u>

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

Table 5

STATEMENT OF BOND AND INTEREST MATURITIES
 December 31, 2016

<u>Maturity</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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>\$ 3,445,000.00</u>	<u>\$ 795,503.75</u>	<u>\$ 4,240,503.75</u>

CITY OF SANDSTONE, MINNESOTA
 \$340,000 Lease Purchase Public Works Building and Land
 Lease Purchase with First National Bank of the North
STATEMENT OF LEASE / PURCHASE PRINCIPAL AND INTEREST
 December 31, 2016

Table 6

<u>Maturity</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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>\$ 241,000.00</u>	<u>\$ 54,442.50</u>	<u>\$ 295,442.50</u>

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

Table 7

STATEMENT OF BOND AND INTEREST MATURITIES

December 31, 2016

<u>Maturity</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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>\$ 18,000.00</u>	<u>\$ 1,218,000.00</u>

CITY OF SANDSTONE, MINNESOTA
OTHER REPORTS
December 31, 2016

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City of Sandstone
Sandstone, Minnesota
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2016

Federal Grantor/Pass Through Grantor/Program Title	Federal CFDA Number	Other Identifying Number	Federal Expenditures
	<u> </u>	<u> </u>	<u> </u>
U.S. DEPARTMENT OF COMMERCE			
Passed Through the Minnesota Public Facilities Authority			
Public Works and Economic Development Facilities	11.300	Unknown	\$ 1,374,703
Total U.S. Department of Commerce			<u>1,374,703</u>
Total Expenditures of Federal Awards			<u><u>\$ 1,374,703</u></u>

See accompanying Notes to the Schedule of Expenditures of Federal Awards.

City of Sandstone
Sandstone, Minnesota
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2016

NOTE 1: BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Sandstone, Minnesota and follows the procedures of the Uniform Guidance. Some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. Pass-through entity identifying numbers are identified where available.

NOTE 2: SUBRECIPIENTS

No amounts were provided to subrecipients.

City of Sandstone
Sandstone, Minnesota
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2016

SECTION SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's opinion(s) issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? Yes X No

Reportable condition(s) identified that are not considered to be material weaknesses? Yes X None reported

Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? Yes X No

Reportable conditions(s) identified that are not considered to be material weakness(es)? Yes X None reported

Type of auditor's opinion(s) issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Part 200 Uniform Guidance? Yes X No

Identification of major programs:

<u>Name of Federal Program</u>	<u>CFDA Number(s)</u>
Public Works and Economic Development	11.300

Dollar threshold used to distinguish between Type A and Type B Programs \$ 300,000

Auditee qualified as low-risk auditee? Yes X No

SECTION FINANCIAL STATEMENT FINDINGS

No matters were reported.

SECTION FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

No matters were reported.

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Members of the City of Council
City of Sandstone
Sandstone, Minnesota

Report on Compliance for Each Major Federal Program

We have audited the City of Sandstone, Minnesota's compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on each of the City of Sandstone, Minnesota's major federal programs for the year ended December 31, 2016. City of Sandstone, Minnesota's major federal programs are identified in the summary of auditor's section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Sandstone, Minnesota's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types compliance requirements referred to above that could have a direct and material effect on a major program occurred. An audit includes examining, on a test basis, evidence about the City of Sandstone, Minnesota's compliance with those requirements and performing such other procedures as we consider necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City of Sandstone, Minnesota's compliance.



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Opinion of Each Major Federal Program

In our opinion, City of Sandstone, Minnesota, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major programs for the year ended December 31, 2016.

Report on Internal Control over Compliance

Management of the City of Sandstone, Sandstone, Minnesota is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Sandstone, Sandstone, Minnesota's internal control over compliance with the types of requirements that could have a direct and material effect on each major program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Sandstone, Sandstone, Minnesota's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we considered to be materi

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Althoff and Nordquist, LLC
Pine City, Minnesota
June 7, 2017

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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, 2016, 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, 2017.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying letter that we consider to be significant deficiencies in internal control over financial reporting.



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Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Sandstone, Minnesota's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards and the Minnesota Legal Compliance Audit Guide for Political Subdivisions* promulgated by the Legal Compliance Task Force pursuant to Minnesota Statutes Sec. 6.65.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions* contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and Tax Increment Financing. Our study included all of the listed categories. The results of our tests indicate that for the items tested, the city complied with the material terms and conditions of applicable provisions. Further, for items not tested, based on our audit, the procedures referred to above, nothing came to our attention to indicate that the City of Sandstone, Minnesota had not complied with such legal provisions.

Purpose of this Report

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



Althoff & Nordquist, LLC
Pine City, Minnesota
June 7, 2017

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