

CITY OF SANDSTONE, MINNESOTA  
**BASIC FINANCIAL STATEMENTS**  
For the Year Ended December 31, 2017

CITY OF SANDSTONE, MINNESOTA

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CITY OF SANDSTONE, MINNESOTA  
INTRODUCTORY SECTION  
December 31, 2017

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CITY OF SANDSTONE, MINNESOTA

**ORGANIZATION**

December 31, 2017

City Council

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

Administration

Kathy George ..... City Administrator  
Lois Newey ..... Finance Officer

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CITY OF SANDSTONE, MINNESOTA  
FINANCIAL SECTION  
December 31, 2017

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# Althoff and Nordquist, LLC

CERTIFIED PUBLIC ACCOUNTANTS  
www.althoffandnordquist.com

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PINE CITY, MINNESOTA 55063  
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124 EAST FOREST  
MORA, MINNESOTA 55051  
TELEPHONE: 320-679-4846

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

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

## INDEPENDENT AUDITOR'S REPORT

Members of the City Council  
City of Sandstone, Minnesota

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Sandstone, Minnesota, as of and for the year ended December 31, 2017, 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, 2017, 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 35 through 41 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considered it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

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

The combining and individual nonmajor fund financial statements, and schedules and supplementary financial information, 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 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 May 9, 2018 on our consideration of the City of Sandstone, Minnesota's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing on internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering City of Sandstone, Minnesota's internal control over financial reporting and compliance.



Althoff and Nordquist, LLC  
Pine City, Minnesota  
May 9, 2018

CITY OF SANDSTONE, MINNESOTA  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
For the Year Ended December 31, 2017

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## Management's Discussion and Analysis

The Management Discussion and Analysis offers readers a financial statement overview and analysis of the financial activities for the City of Sandstone for the fiscal year ended December 31 2017. It is intended to serve as an introduction to the City of Sandstone's basic financial statements. The information can be reviewed in conjunction with the City's financial statements, (page 22), supplementary financial information (page 96) and with the notes beginning on page 48.

### Financial Statements Overview

The basic financial statements include three components-

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

*Statement of net assets* (page 22) presents information on all the assets and liabilities using the accrual basis of accounting with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of financial position improvements or deterioration.

*Statement of activities* (page 24) presents information showing how the net assets changed during the fiscal year. Revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods, ie earned but unused vacation leave.

2. Fund financial statements (starting on page 28) provide information for group related accounts used to maintain control over resources that have been segregated for specific activities or objectives.

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

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

3. Notes to the financial statements (starting on page 48) provide additional information for a broader understanding of the data provided in the government-wide and fund financial statements.

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

The City of Sandstone currently accounts for eighteen individual governmental funds and four proprietary funds. Financial information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the general fund, capital projects fund, EDA fund, Medical and Business Park fund, EDA Public works fund, General MN DOT grant fund which are considered to be major funds for fiscal year 2017. Financial information from the remaining twelve non-major funds is combined into a single, aggregated presentation. Fund financial information for nonmajor governmental funds is also provided in the form of individual and combining statements. Economic Development Authority (EDA) is a component unit pursuant to the criteria in the National Council on Government Accounting, Statement 3.

Restricted cash is reported for cash set aside each year for specific projects or operations. Types of general fund operations include the tree ordinance and KREEC project. The capital, water, sewer and storm sewer funds have restricted cash for future repair and replacement projects. The MN DOT Grant fund and EDA Public works grant funds were open in 2016 and to be completed in 2018. The funds will be used for the infrastructure for the development of the Medical and Business Park property.

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

## Financial Highlights

- Total assets for governmental activities are \$6,509,218 and total liabilities are \$1,242,030 with a total net position of \$5,224,889 for fiscal year-end 2017.
- The change in net position of governmental activities decreased by \$200,866. Fund balance decreased in total governmental funds from \$4,135,487 in 2016 to \$2,532,349 in 2017.
- The unassigned fund balance for the general fund was \$599,493 or 62 percent of total general fund expenditures and 46% of fund operating revenues.
- Total governmental activity outstanding debt obligations decreased by \$1,785,000. This is a reduction of debt service by regular scheduled bond payments (\$124,000 per reconciliation). Business-type activity debt service decreased by \$220,000. Two bonds were retired totaling \$1,441,000.

## Analysis of Financial Activities – Government wide

The capital projects included manhole and street overlay projects.

The fiscal year end December 31, 2017 reflects the required Government Accounting Standards Board (GASB) Statement 34 financial statement report model.

## Capital Assets

Investment in capital assets for governmental and business type activities as of December 31, 2017 is \$12,731,471 (net of accumulated depreciation). This includes; land, buildings, improvements, machinery and equipment, streets, alleys, sidewalks, water pipes, sewer mains and storm sewer.

Capital asset activities for the year end December 31, 2017, are as follows:

<u>Governmental Activities</u>	<u>Beginning Balances</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balances</u>
Total Capital Assets	11,158,744	87,632	16,862	11,229,320
Total Accumulated Depreciation	7,379,033	295,990	16,862	7,658,161
Total Capital Assets, Net of Depreciation	<u>\$ 3,779,711</u>	<u>\$ (208,358)</u>	<u>\$ --</u>	<u>\$ 3,571,353</u>
<u>Business - Type Activities</u>				
Total Capital Assets	20,337,317	111,631		20,448,948
Total Accumulated Depreciation	<u>11,385,557</u>	<u>460,363</u>	<u>104,130</u>	<u>11,950,050</u>
Business - Type Capital Assets, Net	<u>\$ 8,951,760</u>	<u>\$ (348,732)</u>	<u>\$ 104,130</u>	<u>\$ 8,498,898</u>

Governmental assets decrease of \$208,358 reflects a net decrease over annual depreciation.

Business type activities total capital assets decrease of \$452,862 reflects a net decrease of annual depreciation.

## Net Assets

The statement of net assets presents information on all of the City of Sandstone's assets and liabilities, with the difference between the two reported as net assets. Changes in net asset comparison for 2016 and 2017 can be used to observe the overall changing financial position. The chart below is a summary of net assets for the past two years.

### Summary of Net Assets

	<u>Governmental Activities</u>		<u>Business- Type Activities</u>		<u>Total Primary Government</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Assets:						
Current and other assets	\$ 2,937,865	\$ 5,412,763	\$ 4,412,721	\$ 4,140,395	\$ 7,350,586	\$ 9,553,158
Capital assets	<u>3,571,353</u>	<u>3,779,711</u>	<u>8,498,898</u>	<u>8,858,894</u>	<u>12,070,251</u>	<u>12,638,605</u>
<b>Total assets</b>	<u>\$ 6,509,218</u>	<u>\$ 9,192,474</u>	<u>\$ 12,911,619</u>	<u>\$ 12,999,289</u>	<u>\$ 19,420,837</u>	<u>\$ 22,191,763</u>
Liabilities:						
Other liabilities	\$ 774,329	\$ 2,896,719	\$ 284,760	\$ 57,207	\$ 1,059,089	\$ 1,558,719
Long-term debt outstanding	<u>510,000</u>	<u>870,000</u>	<u>3,000,000</u>	<u>3,445,000</u>	<u>3,510,000</u>	<u>5,660,000</u>
<b>Total liabilities</b>	<u>1,284,329</u>	<u>3,766,719</u>	<u>3,284,760</u>	<u>3,502,207</u>	<u>4,569,089</u>	<u>7,218,719</u>
Net assets:						
Invested in capital assets, net of debt	2,921,353	1,564,711	5,273,898	5,413,894	8,195,251	6,978,605
Restricted	2,317,583	2,645,774	580,613	672,741	2,898,196	3,318,515
Unrestricted (deficit)	<u>(14,047)</u>	<u>1,215,270</u>	<u>3,772,348</u>	<u>3,410,447</u>	<u>3,758,301</u>	<u>4,625,717</u>
<b>Total Net assets</b>	<u>\$ 5,224,889</u>	<u>\$5,425,755</u>	<u>\$ 9,626,859</u>	<u>\$ 9,497,082</u>	<u>\$ 14,851,748</u>	<u>\$ 14,922,837</u>

The City of Sandstone's total net asset is invested in capital assets (net) of \$2,921,353. The investments in capital assets are used to provide services to citizens and are not available for future spending.

The business type net assets are primarily invested in capital assets of \$5,273,898, which include all infrastructure and buildings of water, sewer, storm water and Wild River Apartments.

The City of Sandstone reported a decrease in net position for governmental activities of \$1,603,138 and an increase in business-type activities of \$129,736 after transfers. Key elements of this increase and decrease are as follows:

<b>Changes in Net Position</b>						
	<u>Governmental Activities</u>		<u>Business- Type Activities</u>		<u>Total Primary Government</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Program revenues:						
Charges for services	\$ 162,780	\$ 337,107	\$ 1,265,349	\$ 1,294,871	\$ 1,428,129	\$ 1,631,978
Grants	1,440,948	3,820,032	--	--	1,440,948	3,820,032
General revenues:						
Property taxes	511,258	459,065	--	--	511,258	459,065
Other taxes	--	--	--	--	--	--
Other general revenues	13,803	12,939	(11,366)	(71,420)	2,437	(58,481)
Total revenues	<u>2,128,789</u>	<u>4,629,143</u>	<u>1,253,983</u>	<u>1,223,451</u>	<u>3,382,772</u>	<u>5,852,594</u>
Program expenses:						
General government	383,419	373,516	-	-	383,419	373,516
Public safety	265,043	271,415	-	-	265,043	271,415
Public works	211,157	196,560	-	-	211,157	196,560
Culture and Recreation	27,347	22,103	-	-	27,347	22,103
Other general expenditures	350,966	1,518,156	-	-	350,966	1,518,156
Debt service	1,617,586	189,797	-	-	1,617,586	189,797
Capital expenditures	859,468	1,850,045	-	-	859,468	1,850,045
Water	--	--	251,968	271,404	251,968	271,404
Sewer	--	--	341,269	330,322	341,269	330,322
Storm water	--	--	30,738	36,883	30,738	36,883
Wild River Apartments	--	--	517,213	384,760	517,213	384,760
Total expenses	<u>3,714,986</u>	<u>4,421,592</u>	<u>1,141,188</u>	<u>1,023,369</u>	<u>4,856,174</u>	<u>5,444,961</u>
Excess (deficiency) before						
Special items and transfers	(1,586,197)	207,551	112,795	200,082	(1,473,402)	407,633
Transfers in (out)						
	<u>(16,941)</u>	<u>(13,797)</u>	<u>16,941</u>	<u>13,797</u>	<u>--</u>	<u>--</u>
Increase (decrease) in net position	<u>\$ (1,603,138)</u>	<u>\$ 193,754</u>	<u>\$ 129,736</u>	<u>\$ 213,879</u>	<u>\$ (1,473,402)</u>	<u>\$ 407,633</u>

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

The City of Sandstone reported a decrease in net position for governmental activities of \$1,603,138 and an increase in business-type activities of \$129,736 after transfers. Key elements of this increase and decrease are as follows:

**Changes in Net Position**

	<u>Governmental Activities</u>		<u>Business- Type Activities</u>		<u>Total Primary Government</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Program revenues:						
Charges for services	\$ 162,780	\$ 337,107	\$ 1,265,349	\$ 1,294,871	\$ 1,428,129	\$ 1,631,978
Grants	1,440,948	3,820,032	--	--	1,440,948	3,820,032
General revenues:						
Property taxes	511,258	459,065	--	--	511,258	459,065
Other taxes	--	--	--	--	--	--
Other general revenues	13,803	12,939	(11,366)	(71,420)	2,437	(58,481)
Total revenues	<u>2,128,789</u>	<u>4,629,143</u>	<u>1,253,983</u>	<u>1,223,451</u>	<u>3,382,772</u>	<u>5,852,594</u>
Program expenses:						
General government	383,419	373,516	-	-	383,419	373,516
Public safety	265,043	271,415	-	-	265,043	271,415
Public works	211,157	196,560	-	-	211,157	196,560
Culture and Recreation	27,347	22,103	-	-	27,347	22,103
Other general expenditures	350,966	1,518,156	-	-	350,966	1,518,156
Debt service	1,617,586	189,797	-	-	1,617,586	189,797
Capital expenditures	859,468	1,850,045	-	-	859,468	1,850,045
Water	--	--	251,968	271,404	251,968	271,404
Sewer	--	--	341,269	330,322	341,269	330,322
Storm water	--	--	30,738	36,883	30,738	36,883
Wild River Apartments	--	--	517,213	384,760	517,213	384,760
Total expenses	<u>3,714,986</u>	<u>4,421,592</u>	<u>1,141,188</u>	<u>1,023,369</u>	<u>4,856,174</u>	<u>5,444,961</u>
Excess (deficiency) before						
special items and transfers	(1,586,197)	207,551	112,795	200,082	(1,473,402)	407,633
Transfers in (out)						
	<u>(16,941)</u>	<u>(13,797)</u>	<u>16,941</u>	<u>13,797</u>	<u>--</u>	<u>--</u>
Increase (decrease) in net position	<u>\$ (1,603,138)</u>	<u>\$ 193,754</u>	<u>\$ 129,736</u>	<u>\$ 213,879</u>	<u>\$ (1,473,402)</u>	<u>\$ 407,633</u>

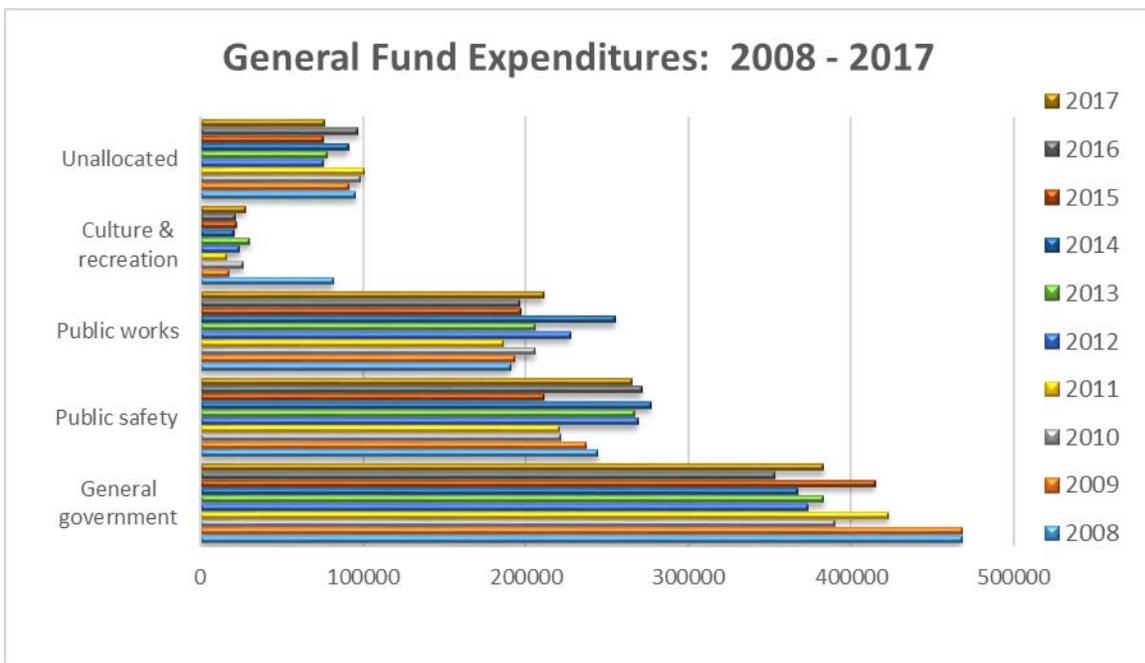
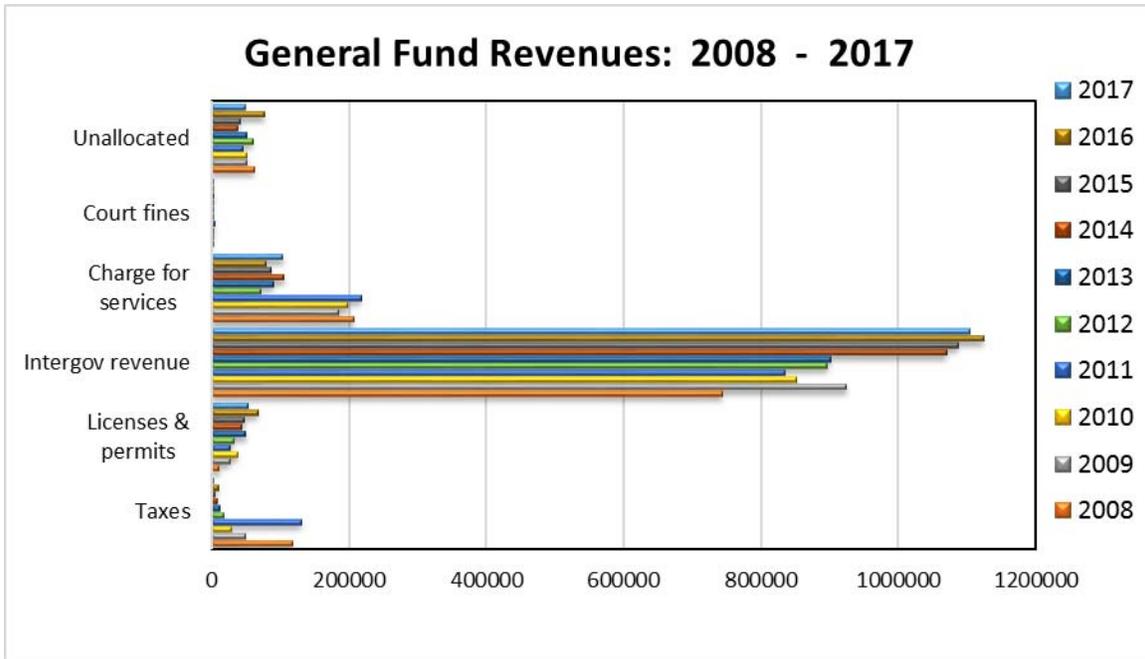
More detailed governmental and business-type information is found in the balance sheet and statement of revenue, expenditure and changes in fund balance.

## General Fund

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

Expenditures increased from \$939,907 in 2016 to \$963,553 in 2017. Revenue decreased from 2016 of \$1,357,808 to \$1,312,455 in 2017.

The following two graphs show the general fund revenues and expenditures comparison from 2008 through 2017.

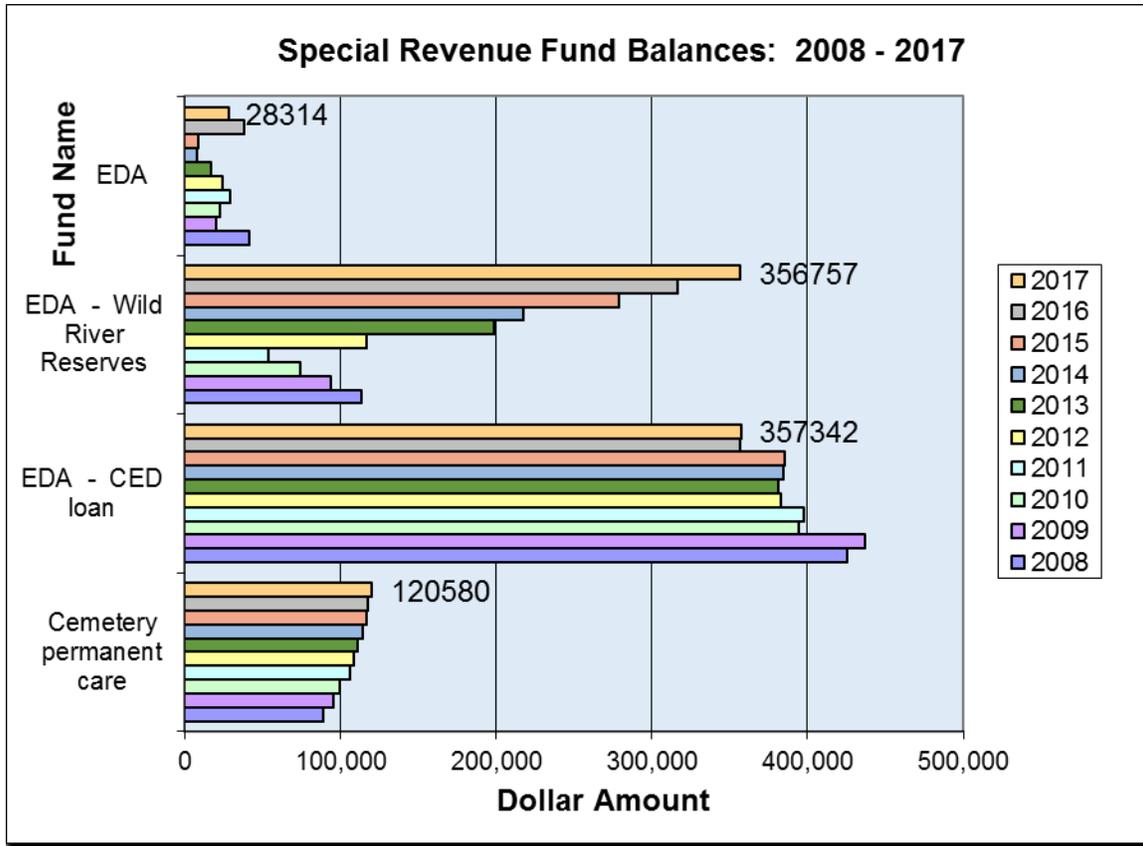


## Special Revenue Funds

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

The City of Sandstone has three non-major special revenue funds: Cemetery perpetual care, EDA wild river capital expense, EDA wild river reserve (EDA wild river capital expense and reserve funds combined on graph below). EDA CED loan fund and EDA operational funds are major funds in 2017.

Special revenue funds reflect minor variations between fund balances from fiscal year 2008 to 2017.



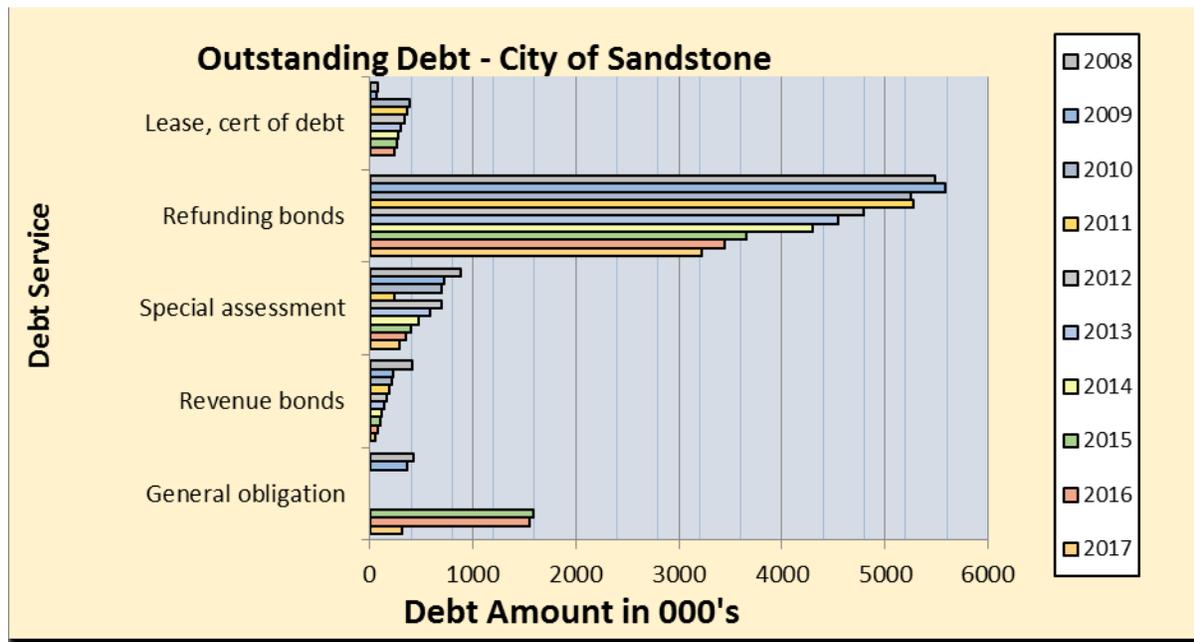
The EDA Wild River Reserves fund balance increased by \$40,466. Bond payment shortfall of \$60,591 was less than the taxes collected of \$69,116.

## Debt Service Funds

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

The City of Sandstone has four debt service funds. The \$1,200,000 General Obligation Temporary Improvement Bond issued in 2015 for cash flow of the infrastructure project for the business park was paid at maturity. The Lease Bond for the purchase of the Public Works building was retired in advance of the 2026 maturity.

The following chart reflects the City of Sandstone types of bonds and bond outstanding balances for fiscal year end 2008-2017.



The City of Sandstone’s total net bonds and notes payable principal decreased by \$1,565,000 during the 2017 fiscal year. The decrease is the result of scheduled debt payments and early retirement of the lease for the Public Works property. The fiscal year end principal balance changed from \$2,215,000 in 2016 to \$650,000 in 2017.

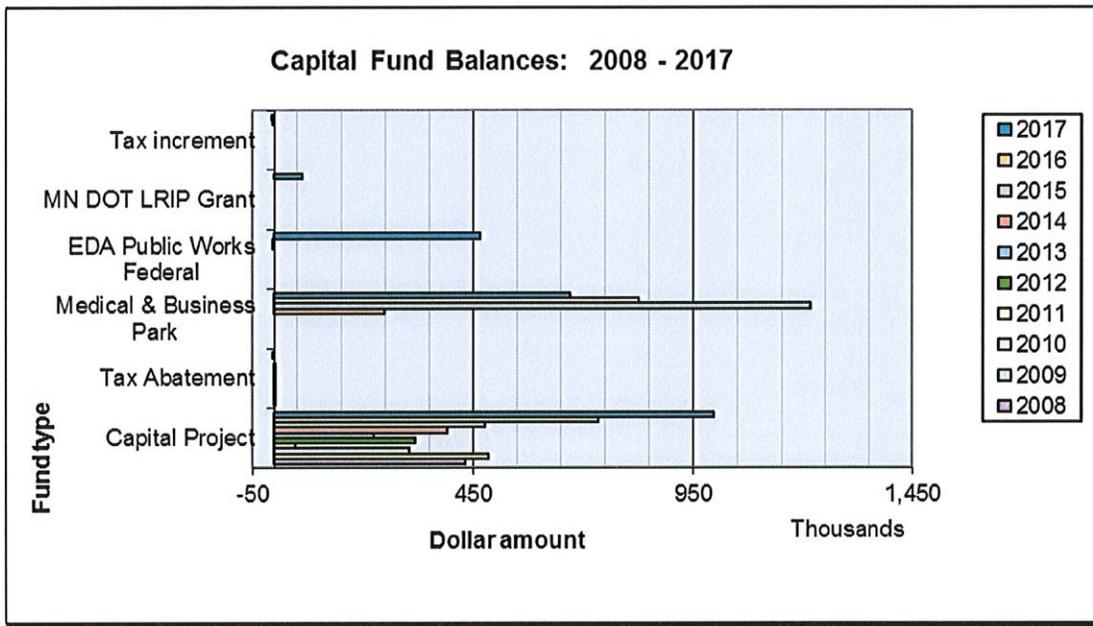
The Economic Development Authority (EDA) refunded debt to reduce bond rates and reduce annual principal and interest payment. The bond principal balance decreased from \$3,445,000 in 2016 to \$3,225,000 in 2017.

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

## Capital Fund

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

Capital funds include six funds of which Capital projects, Medical and Business Park, EDA Public Works Federal Grant and Minnesota Department of Transportation LRIP Grant are major funds. The tax abatement fund was created in 2006 to abate taxes for Kettle River Townhouse. The tax increment fund was created in 2017 to refund taxes for KC Companies. The EDA Public Works Federal Grant fund and MN DOT LRIP Grant fund were created in 2015 for qualified grant expenditure for infrastructure upgrades required at the former airport property.



The capital projects fund balance increased from \$734,094 in 2016 to \$995,062 in 2017.

Major expenditures in the capital project fund for fiscal year 2017 included street overlays, street maintenance and new roof for a portion of city hall. Total expenditures increased from \$71,058 in 2016 to \$94,303 in 2017.

Revenues increased from \$244,296 in 2016 to \$302,620 in 2017. The 2013 insurance claim balance of \$112,136 remains restricted for environmental remediation in the former high school building.

## Proprietary Funds

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

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

### Proprietary Funds overall operations 2014 to 2017 comparison:

	2017 Total	2016 Total	2015 Total	2014 Total	2016-17 Change
Operating revenues:					
Sales & charges for services	1,256,683	1,287,301	1,227,631	1,212,271	(30,618)
Unallocated revenue	8,666	7,570	2,998	2,231	1,096
Total operating revenues	1,265,349	1,294,871	1,230,629	1,214,502	(29,522)
Operating expenses:					
Maintenance and operations	687,396	572,987	628,519	715,280	114,409
Depreciation	453,792	450,382	442,936	430,905	3,410
Total Operating Expenses	1,141,188	1,023,369	1,071,455	1,146,185	117,819
Operating Income (Loss)	124,161	271,502	159,174	68,317	(147,341)
Non-operating revenues (expenses):					
Interest earned	49,225	42,618	42,503	36,806	6,607
Sale of Assets/Property	--	--	--	--	--
Interest expense	(60,591)	(114,038)	(117,787)	(126,638)	(53,447)
Total non-operating revenues (exp)	(11,366)	(71,420)	(75,284)	(89,832)	60,054
Net Income (loss) before transfers and Contributions	112,795	200,082	(83,890)	(21,515)	(87,287)
Transfers In	60,591	57,697	58,216	69,522	2,894
Transfers out	(43,650)	(43,900)	(143,650)	(68,400)	(250)
Changes in net position	129,736	213,879	(1,544)	(20,393)	84,143
Total net position - beginning	9,497,082	9,283,203	9,284,747	9,305,140	(213,879)
Total net position - ending	9,626,859	9,497,082	9,283,203	9,284,747	129,777

Operating Revenue – decrease	\$ 29,522
Operating Expense - increase	\$ 117,819
Non-operating Revenue – increase (expense)	\$ 60,054

Net position increased by \$129,777. The increases came from Wild River apartments (+156M), water (-38M), sewer (+4M) and storm water (+8M) funds.

Wild River apartments fund operating revenues decreased by \$11,515 and operating expenses increased by \$232,453. The net position increased by \$155,701. The annual levy is currently \$80,000.

Net position for the Water Fund decreased \$38,132. Operating revenues decrease by \$3,075 and maintenance and operations decreased \$19,436 from 2016. Sewer Fund net position increased \$3,676. Storm Water Fund increased net position by \$8,491. More detailed information can be found for the proprietary funds in the statement of revenues, expenses, and changes in fund net position.

## **In Conclusion**

City and EDA signed a purchase agreement with Sandstone Development, LLC for two lots in the Business Park: Lot 2 Block 1 Grant Knowles Addition and Lot 1 Block 2 Grant Knowles Addition. The due diligence period extends into 2018, with a public hearing to be held in June, 2018.

North Pine Area Hospital District and Essentia Health completed construction of the new hospital facility in the Business Park during 2017, with a grand opening event held on May 9, 2017.

Tax Abatement was provided to Gateway Family Health Clinic and a new space was constructed on the Essentia Health – Sandstone hospital campus. The new Gateway Clinic opened in October, 2017. A new space was also created for Thrifty White Drug, which also opened in October, 2017.

Tax Increment Financing was provided to Midwest Properties of Sandstone for a 36-bed assisted living facility, Golden Horizons. Construction began in 2016 at the new Business Park with the final Certificate of Occupancy issued on August 3, 2017.

Members Co-Operative Credit Union constructed a new building in the Business Park, opening their doors in June, 2017.

City received \$850,000 from the 2015 state bonding bill, \$500,000 from Minnesota Department of Transportation from a grant application for local road improvement funds and received a \$2,360,000 grant from Federal Economic Development Administration for the new road, bridge and infrastructure leading to the Business Park. Although the majority of the project was completed in 2017, final punch list items have carried over to 2018.

City paid off the Lease-Purchase Agreement for the Public Works Facility located on County Highway 61. The debt was originally scheduled out to 2026; however, the City realized a significant cost savings by paying it off in 2017.

City contracted with WSB Architects to amend and update Robinson Park's master plan which will allow the City to apply for set-aside legacy funds. The 2017 application was not funded; however, the City will reapply in 2018.

City contracted with WSB & Associates to update the Comprehensive Plan, which was finalized and adopted in December, 2017.

City remains involved in the Northern Lights Express passenger rail project. City has been designated as possible site for a maintenance and/or layover facility by MNDOT.

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

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

CITY OF SANDSTONE, MINNESOTA  
**BASIC FINANCIAL STATEMENTS**  
For the Year Ended December 31, 2017

**STATEMENT OF NET POSITION**

December 31, 2017

*(With Comparative Amounts for December 31, 2016)*

	Governmental Activities	Business - Type Activities	Totals	
			2017	2016
<b>ASSETS</b>				
Cash & cash equivalents	\$ 1,410,664	\$ 880,943	\$ 2,291,607	\$ 3,741,680
Cash with Fiscal Agent	--	71,044	71,044	58,560
Investments	268,644	2,777,900	3,046,544	2,523,530
Accounts receivable	398,521	25,527	424,048	650,589
Delinquent property tax	36,648	--	36,648	33,412
Special assessments receivable	3,194	2,677	5,871	11,278
Special assessments deferred	11,801	--	11,801	47,156
Due from other funds	--	74,017	74,017	984,326
Bond discount and refunding	--	115,219	115,219	137,205
Prepaid expenses	14,022	14,137	28,159	28,830
Restricted cash	671,969	451,257	1,123,226	539,208
Restricted investments	--	--	--	631,227
Capital assets, net	3,571,353	8,498,898	12,070,251	12,638,605
Total assets	6,386,816	12,911,619	19,298,435	22,025,606
Deferred Outflow of Resources				
Related to Pensions	122,402	--	122,402	166,157
Total Assets and Deferred Outflows of Resources	\$ 6,509,218	\$ 12,911,619	\$ 19,420,837	\$ 22,191,763
<b>LIABILITIES</b>				
Accounts payable	\$ 51,879	\$ 16,820	\$ 68,699	\$ 23,373
Due to other funds	74,017	--	74,017	984,326
Accrued expenses	12,928	--	12,928	29,414
Unearned revenue	144,290	3,473	147,763	58,434
Security deposits	--	38,095	38,095	38,055
Interest payable	28,023	1,372	29,395	51,620
Pension payable	280,893	--	280,893	373,497
Non current liabilities:				
Due within one year	140,000	225,000	365,000	1,565,000
Due in more than one year	510,000	3,000,000	3,510,000	4,095,000
Total liabilities	1,242,030	3,284,760	4,526,790	7,218,719
Deferred Inflow of Resources				
Related to Pensions	42,299	--	42,299	50,207
<b>NET POSITION</b>				
Net investment in Capital Assets	\$ 2,921,353	\$ 5,273,898	\$ 8,195,251	\$ 6,978,605
Nonspendable	14,022	129,356	143,378	166,035
Restricted	2,212,438	451,257	2,663,695	2,288,140
Committed	--	--	--	--
Assigned	91,123	--	91,123	864,340
Unassigned	(14,047)	3,772,348	3,758,301	4,625,717
Total Net Position	\$ 5,224,889	\$ 9,626,859	\$ 14,851,748	\$ 14,922,837

See Notes to Financial Statements.

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CITY OF SANDSTONE, MINNESOTA  
**STATEMENT OF ACTIVITIES**  
For the Year Ended December 31, 2017  
*(With Comparative Amounts for the Year Ended December 31, 2016)*

Functions/Programs	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Governmental Activities:</b>				
General government	\$ 559,525	\$ 120,933	\$ 1,103,939	\$ 336,089
Public safety	302,451	11,179	--	--
Public works	234,193	--	--	--
Culture and recreation	34,195	20,936	--	--
Debt service	30,301	--	--	--
Capital expenditure	859,468	--	--	--
Unallocated	352,574	70,645	--	--
<b>Total Governmental Activities</b>	<b>2,372,707</b>	<b>223,693</b>	<b>1,103,939</b>	<b>336,089</b>
<b>Business - Type Activities:</b>				
Water utility	251,968	250,490	--	--
Sewer utility	341,269	298,230	--	--
Storm water	30,738	44,115	--	--
Wild River apartment	517,213	672,514	--	--
<b>Total Business - Type Activities</b>	<b>1,141,188</b>	<b>1,265,349</b>	<b>--</b>	<b>--</b>
<b>General Revenues:</b>				
Property tax				
Tax increments				
Sale of Property				
Interest and investment earnings				
Transfers				
<b>Total General Revenues and Transfers</b>				
Change in Net 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	
		2017	2016
\$ 1,001,436	\$ --	\$ 1,001,436	\$ 3,341,950
(291,272)	--	(291,272)	(265,187)
(234,193)	--	(234,193)	(221,610)
(13,259)	--	(13,259)	(7,570)
(30,301)	--	(30,301)	(50,343)
(859,468)	--	(859,468)	(1,850,045)
(281,929)	--	(281,929)	(1,454,815)
<u>(708,986)</u>	<u>--</u>	<u>(708,986)</u>	<u>(507,620)</u>
--	(1,478)	(1,478)	(23,989)
--	(43,039)	(43,039)	(5,805)
--	13,377	13,377	2,027
--	155,301	155,301	185,231
--	--	--	--
<u>--</u>	<u>124,161</u>	<u>124,161</u>	<u>157,464</u>
\$ 488,045	\$ --	\$ 488,045	\$ 459,065
23,213	--	23,213	26,865
--	--	--	--
13,803	(11,366)	2,437	55,557
(16,941)	16,941	--	--
<u>508,120</u>	<u>5,575</u>	<u>513,695</u>	<u>541,487</u>
(200,866)	129,736	(71,130)	191,331
--	41	41	--
<u>5,425,755</u>	<u>9,497,082</u>	<u>14,922,837</u>	<u>14,731,506</u>
<u>\$ 5,224,889</u>	<u>\$ 9,626,859</u>	<u>\$ 14,851,748</u>	<u>\$ 14,922,837</u>

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CITY OF SANDSTONE, MINNESOTA  
FUND FINANCIAL STATEMENTS  
December 31, 2017

CITY OF SANDSTONE, MINNESOTA  
Governmental Funds  
**BALANCE SHEET**  
December 31, 2017

	General Fund	Capital Project Fund	EDA Fund	Minnesota DOT Grant
<b>ASSETS</b>				
Cash & cash equivalents	\$ 572,558	\$ 20,705	\$ 72,153	\$ --
Investments	--	--	125,000	--
Accounts receivable	430	434	92,647	301,311
Delinquent property tax	414	20,250	2	--
Special assessments	2,159	--	--	--
Special assessments deferred	--	--	--	--
Due from other funds	800,941	670,295	--	--
Bond discount	--	--	--	--
Prepaid expense	14,022	--	--	--
Restricted investments	--	--	--	--
Restricted cash	150,685	516,023	--	--
Total Assets	<u>\$ 1,541,209</u>	<u>\$ 1,227,707</u>	<u>\$ 289,802</u>	<u>\$ 301,311</u>
<b>LIABILITIES &amp; FUND BALANCE</b>				
<u>Liabilities:</u>				
Cash in bank (overdraft)	\$ --	\$ --	\$ --	\$ --
Accounts payable	11,330	40,549	--	--
Accrued expenses	12,928	--	--	--
Due to other funds	--	171,846	168,839	238,502
Unearned revenue	2,573	20,250	92,649	--
Total Liabilities	<u>26,831</u>	<u>232,645</u>	<u>261,488</u>	<u>238,502</u>
<u>Fund Balance:</u>				
Nonspendable	14,022	--	--	--
Restricted	150,685	995,062	--	--
Committed	--	--	--	--
Assigned	750,178	--	28,314	62,809
Unassigned	599,493	--	--	--
Total fund balance	<u>1,514,378</u>	<u>995,062</u>	<u>28,314</u>	<u>62,809</u>
Total liabilities and fund balances	<u>\$ 1,541,209</u>	<u>\$ 1,227,707</u>	<u>\$ 289,802</u>	<u>\$ 301,311</u>

Medical and Business Park Fund	EDA Public Works Fund	Nonmajor Governmental Funds	Total Governmental Funds
\$ --	\$ --	\$ 745,248	\$ 1,410,664
--	--	143,644	268,644
--	--	3,699	398,521
--	--	15,982	36,648
--	--	1,035	3,194
--	--	11,801	11,801
--	--	175,135	1,646,371
--	--	--	--
--	--	--	14,022
--	--	--	--
--	--	5,261	671,969
<u>\$ --</u>	<u>\$ --</u>	<u>\$ 1,101,805</u>	<u>\$ 4,461,834</u>
\$ --	\$ --	\$ --	--
--	--	--	51,879
--	--	--	12,928
670,295	464,610	6,296	1,720,388
--	--	28,818	144,290
<u>670,295</u>	<u>464,610</u>	<u>35,114</u>	<u>1,929,485</u>
--	--	--	14,022
--	--	1,066,691	2,212,438
--	--	--	--
--	--	--	841,301
(670,295)	(464,610)	--	(535,412)
<u>(670,295)</u>	<u>(464,610)</u>	<u>1,066,691</u>	<u>2,532,349</u>
<u>\$ --</u>	<u>\$ --</u>	<u>\$ 1,101,805</u>	<u>\$ 4,461,834</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, 2017  
*(With Comparative Amounts for December 31, 2016)*

Statement 4

	2017	2016
Amounts reported for governmental activities in the Statements of Net Position are different because:		
Total Governmental Fund Balance	\$ 2,532,349	\$ 4,135,487
<p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.</p>		
Governmental Capital Assets	11,229,514	11,158,744
Less: Accumulated Depreciation	(7,658,161)	(7,379,033)
	3,571,353	3,779,711
<p>Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.</p>		
Deferred Revenue	-	33,412
<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	(650,000)	(2,215,000)
Bond Interest Payable	(28,023)	(50,308)
	(678,023)	(2,265,308)
Pension Related Items for GASB #68		
Deferred outflow of resources	122,402	166,157
Deferred inflow of resources	(42,299)	(50,207)
Net Pension Liability	(280,893)	(373,497)
	(200,790)	(257,547)
Net Position of Governmental Activities	\$ 5,224,889	\$ 5,425,755

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, 2017

	General Fund	Capital Project Fund	EDA Fund	Minnesota DOT Grant
<b>REVENUES</b>				
Property taxes	\$ 338	\$ 264,250	\$ 9,343	\$ --
Special assessments	2,280	--	--	--
Licenses & permits	11,179	--	--	--
Intergovernmental revenue	1,103,939	--	--	--
Grants	--	34,778	--	301,311
Charges for services	120,933	--	--	--
Court fines	920	--	--	--
Interest	7,656	3,342	460	--
Rent	20,936	--	--	--
Miscellaneous	5,466	--	--	--
Total Revenues	<u>1,273,647</u>	<u>302,370</u>	<u>9,803</u>	<u>301,311</u>
<b>EXPENDITURES</b>				
General government	383,419	--	--	--
Public safety	265,043	--	--	--
Public works	211,157	--	--	--
Culture & recreation	27,347	--	--	--
Miscellaneous	76,587	--	5,323	238,502
Debt service	--	--	--	--
Capital expenditures	--	94,053	14,266	--
Total Expenditures	<u>963,553</u>	<u>94,053</u>	<u>19,589</u>	<u>238,502</u>
Excess (deficiency) of revenues over (under) expenditures	310,094	208,317	(9,786)	62,809
<b>OTHER FINANCING RESOURCES (USES)</b>				
Bond proceeds	--	--	--	--
Transfer in	38,808	91,459	--	--
Transfer (out)	(342,189)	(38,808)	--	--
Total other financing sources (uses)	<u>(303,381)</u>	<u>52,651</u>	<u>--</u>	<u>--</u>
Net change in fund balances	6,713	260,968	(9,786)	62,809
Fund balances - beginning	<u>1,507,665</u>	<u>734,094</u>	<u>38,100</u>	<u>--</u>
Fund balances - ending	<u>\$ 1,514,378</u>	<u>\$ 995,062</u>	<u>\$ 28,314</u>	<u>\$ 62,809</u>

See Notes to Financial Statements.

Medical and Business Park Fund	EDA Public Works Fund	Nonmajor Governmental Funds	Total Governmental Funds
\$ --	\$ --	\$ 214,114	\$ 488,045
--	--	20,933	23,213
--	--	--	11,179
--	--	--	1,103,939
--	--	--	336,089
--	--	--	120,933
--	--	--	920
--	--	2,345	13,803
--	--	--	20,936
--	--	4,266	9,732
<u>--</u>	<u>--</u>	<u>241,658</u>	<u>2,128,789</u>
--	--	--	383,419
--	--	--	265,043
--	--	--	211,157
--	--	--	27,347
--	--	30,554	350,966
--	--	1,617,586	1,617,586
287,589	463,560	--	859,468
<u>287,589</u>	<u>463,560</u>	<u>1,648,140</u>	<u>3,714,986</u>
(287,589)	(463,560)	(1,406,482)	(1,586,197)
--	--	--	--
--	--	1,503,326	1,633,593
(1,208,946)	--	(60,591)	(1,650,534)
<u>(1,208,946)</u>	<u>--</u>	<u>1,442,735</u>	<u>(16,941)</u>
(1,496,535)	(463,560)	36,253	(1,603,138)
826,240	(1,050)	1,030,438	4,135,487
<u>\$ (670,295)</u>	<u>\$ (464,610)</u>	<u>\$ 1,066,691</u>	<u>\$ 2,532,349</u>

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

December 31, 2017

*(With Comparative Amounts for December 31, 2016)*

	2017	2016
Amounts reported for governmental activities in the Statements of Activities are different because:		
Net Changes in Fund Balance - Total Governmental Funds	<u>\$ (1,603,138)</u>	<u>\$ 193,754</u>
Governmental funds reported capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Acquisition of assets	70,770	30,059
Depreciation expense	(279,128)	(308,370)
	<u>(208,358)</u>	<u>(278,311)</u>
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Unearned revenue	36,648	33,412
Pension Related Items for GASB #68		
Pension Expense	59,290	(59,641)
State Aid (Pensions)	--	--
	<u>59,290</u>	<u>(59,641)</u>
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		
Proceeds from issuance of bonds	--	--
Principal retirement on long-term debt	1,565,000	139,000
Accrued interest on bonds payable	(50,308)	(50,762)
	<u>1,514,692</u>	<u>88,238</u>
Change in net position of Governmental Activities	<u>\$ (200,866)</u>	<u>\$ (22,548)</u>

See Notes to Financial Statements.

## General Fund

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

For the Year Ended December 31, 2017

	Original and Amended Budget Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>			
Taxes	\$ 3,000	\$ 338	\$ (2,662)
Special assessments	--	2,280	2,280
Licenses & permits	5,401	11,179	5,778
Intergovernmental revenue	1,088,183	1,103,939	15,756
Charges for services	99,503	120,933	21,430
Court fines	1,500	920	(580)
Miscellaneous	27,400	34,058	6,658
Total Revenues	<u>1,224,987</u>	<u>1,273,647</u>	<u>48,660</u>
<b>EXPENDITURES</b>			
General government:			
Mayor & council	10,675	5,365	(5,310)
Executive	207,807	202,119	(5,688)
Elections & voter registration	100	2	(98)
Finance administration	82,443	84,034	1,591
Legal fees	31,000	19,541	(11,459)
City engineer	65,200	26,860	(38,340)
City hall	29,170	28,062	(1,108)
Economic development	12,100	17,436	5,336
Total general government	<u>438,495</u>	<u>383,419</u>	<u>(55,076)</u>
Public Safety:			
Safety	500	1,440	940
Police protection	117,845	117,845	--
Fire protection	104,112	125,509	21,397
Building inspections	30,525	19,459	(11,066)
Animal control	1,500	790	(710)
Total public safety	<u>254,482</u>	<u>265,043</u>	<u>10,561</u>
Public works:			
Administration			
Employee services	209,067	179,836	(29,231)
Street lighting	28,000	31,321	3,321
Total public works	<u>237,067</u>	<u>211,157</u>	<u>(25,910)</u>
Culture & Recreation:			
Park and recreation	26,252	22,296	(3,956)
Library	5,000	5,051	51
Airport	--	--	--
Total culture & recreation	<u>31,252</u>	<u>27,347</u>	<u>(3,905)</u>

See Notes to Financial Statements.

**Statement of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual**  
 For the Year Ended December 31, 2017

	Original and Amended Budget Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
Expenditures (Continued)			
Miscellaneous			
Cemetery	11,515	10,355	(1,160)
Non-departmental	59,150	66,232	7,082
Total miscellaneous	<u>70,665</u>	<u>76,587</u>	<u>5,922</u>
Total expenditures	<u>1,031,961</u>	<u>963,553</u>	<u>(68,408)</u>
Excess of revenues over (under) expenditures	<u>193,026</u>	<u>310,094</u>	<u>117,068</u>
Other Financing Sources (Uses):			
Transfer in	--	38,808	38,808
Transfer (out)	(135,900)	(342,189)	(206,289)
Total other financing sources (uses)	<u>(135,900)</u>	<u>(303,381)</u>	<u>(167,481)</u>
Net change in fund balance	57,126	6,713	(50,413)
Fund balance - beginning	<u>1,507,665</u>	<u>1,507,665</u>	<u>--</u>
Fund balance - ending	<u>\$ 1,564,791</u>	<u>\$ 1,514,378</u>	<u>\$ (50,413)</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, 2017

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>			
Grants	\$ --	\$ --	\$ --
Total Revenues	<u>--</u>	<u>--</u>	<u>--</u>
<b>EXPENDITURES</b>			
Expense	--	463,560	463,560
Total Expenditures	<u>--</u>	<u>463,560</u>	<u>463,560</u>
Excess (deficiency) of revenues over (under) expenditures	--	(463,560)	(463,560)
Net change in fund balances	--	(463,560)	(463,560)
Fund Balance - beginning	<u>(1,050)</u>	<u>(1,050)</u>	<u>--</u>
Fund Balance - ending	<u>\$ (1,050)</u>	<u>\$ (464,610)</u>	<u>\$ (463,560)</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, 2017

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>			
Interest earned	\$ --	\$ --	\$ --
Grants	--	301,311	301,311
<b>Total Revenues</b>	<b>--</b>	<b>301,311</b>	<b>301,311</b>
<b>EXPENDITURES</b>			
Miscellaneous	--	238,502	238,502
<b>Total Expenditures</b>	<b>--</b>	<b>238,502</b>	<b>238,502</b>
Excess (deficiency) of revenues over (under) expenditures	--	62,809	62,809
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfer in	--	--	--
Transfer out	--	--	--
<b>Total Other Financing Sources (Uses)</b>	<b>--</b>	<b>--</b>	<b>--</b>
Net change in fund balance	--	62,809	62,809
Fund Balance - beginning	--	--	--
<b>Fund Balance - ending</b>	<b>\$ --</b>	<b>\$ 62,809</b>	<b>\$ 62,809</b>

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, 2017

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>			
Property taxes	\$ 9,280	\$ 9,343	\$ 63
Interest earned	--	460	460
Sale of property	--	--	--
Total Revenues	<u>9,280</u>	<u>9,803</u>	<u>523</u>
<b>EXPENDITURES</b>			
Miscellaneous	6,500	5,323	(1,177)
Property acquisition	--	14,266	14,266
Total Expenditures	<u>6,500</u>	<u>19,589</u>	<u>13,089</u>
Excess (deficiency) of revenues over (under) expenditures	<u>2,780</u>	<u>(9,786)</u>	<u>(12,566)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfer in	--	--	--
Total Other Financing Sources (Uses)	<u>--</u>	<u>--</u>	<u>--</u>
Net change in fund balance	2,780	(9,786)	(12,566)
Fund Balance - beginning	<u>38,100</u>	<u>38,100</u>	<u>--</u>
Fund Balance - ending	<u>\$ 40,880</u>	<u>\$ 28,314</u>	<u>\$ (12,566)</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, 2017

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>			
Property taxes	\$ 209,183	\$ 264,250	\$ 55,067
Special assessments	--	--	--
Interest earned	--	3,342	3,342
Grants	--	34,778	34,778
Miscellaneous	--	--	--
Total Revenues	<u>209,183</u>	<u>302,370</u>	<u>93,187</u>
<b>EXPENDITURES</b>			
Capital expenditures	<u>334,400</u>	<u>94,053</u>	<u>(240,347)</u>
Total Expenditures	<u>334,400</u>	<u>94,053</u>	<u>(240,347)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(125,217)</u>	<u>208,317</u>	<u>333,534</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfer in	119,687	91,459	(28,228)
Transfer out	--	(38,808)	(38,808)
Total Other Financing Sources (Uses)	<u>119,687</u>	<u>52,651</u>	<u>(67,036)</u>
Net change in fund balance	(5,530)	260,968	266,498
Fund Balance - beginning	<u>734,094</u>	<u>734,094</u>	<u>--</u>
Fund Balance - ending	<u>\$ 728,564</u>	<u>\$ 995,062</u>	<u>\$ 266,498</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, 2017

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>			
Interest earned	\$ --	\$ --	\$ --
Miscellaneous	977,500	--	(977,500)
Total Revenues	<u>977,500</u>	<u>--</u>	<u>(977,500)</u>
<b>EXPENDITURES</b>			
Capital expenditures	977,500	287,589	(689,911)
Total Expenditures	<u>977,500</u>	<u>287,589</u>	<u>(689,911)</u>
Excess (deficiency) of revenues over (under) expenditures	--	(287,589)	(287,589)
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfer in (out)	--	(1,208,946)	(1,208,946)
Total Other Financing Sources (Uses)	<u>--</u>	<u>(1,208,946)</u>	<u>(1,208,946)</u>
Net change in fund balance	--	(1,496,535)	(1,496,535)
Fund Balance - beginning	<u>826,240</u>	<u>826,240</u>	<u>--</u>
Fund Balance - ending	<u>\$ 826,240</u>	<u>\$ (670,295)</u>	<u>\$ (1,496,535)</u>

## Proprietary Funds

## STATEMENT OF NET POSITION

December 31, 2017

	Water Utility Fund	Sewer Utility Fund	Storm Water Fund	Wild River Apartment Fund	Total
<b>ASSETS</b>					
Current Assets:					
Cash & cash equivalents	\$ 190,433	\$ 190,766	\$ 168,115	\$ 331,629	\$ 880,943
Cash with fiscal agent	--	--	--	71,044	71,044
Investments	--	2,561,290	--	216,610	2,777,900
Accounts receivable	8,305	17,563	(2,625)	2,284	25,527
Due from other funds	--	74,017	--	--	74,017
Bond discount and refunding	--	--	--	115,219	115,219
Prepaid expenses	2,975	1,645	--	9,517	14,137
Special assessments receivable	1,606	1,071	--	--	2,677
Restricted cash	232,909	211,154	--	7,194	451,257
<b>Total current assets</b>	<b>436,228</b>	<b>3,057,506</b>	<b>165,490</b>	<b>753,497</b>	<b>4,412,721</b>
Noncurrent assets:					
Deferred charges	--	--	--	--	--
Capital assets:					
Land	--	--	--	157,015	157,015
Plant in service	4,841,344	10,054,365	1,000,924	4,281,622	20,178,255
Equipment and fixtures	--	113,678	--	--	113,678
Less: allowance for depreciation	(3,070,494)	(5,793,972)	(696,223)	(2,389,361)	(11,950,050)
<b>Total noncurrent assets</b>	<b>1,770,850</b>	<b>4,374,071</b>	<b>304,701</b>	<b>2,049,276</b>	<b>8,498,898</b>
<b>Total Assets</b>	<b>\$ 2,207,078</b>	<b>\$ 7,431,577</b>	<b>\$ 470,191</b>	<b>\$ 2,802,773</b>	<b>\$ 12,911,619</b>
<b>LIABILITIES</b>					
Current Liabilities:					
Accounts payable	\$ 403	\$ 9,256	\$ --	\$ 7,161	\$ 16,820
Bonds payable-current	--	--	--	43,422	43,422
Unearned revenue	1,606	1,867	--	--	3,473
Due to other funds	--	--	--	--	--
Interest payable	--	--	--	1,372	1,372
Security deposits	--	--	--	38,095	38,095
<b>Total Current Liabilities</b>	<b>2,009</b>	<b>11,123</b>	<b>--</b>	<b>90,050</b>	<b>103,182</b>
Noncurrent liabilities:					
Bonds payable	--	--	--	3,181,578	3,181,578
<b>Total noncurrent liabilities</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>3,181,578</b>	<b>3,181,578</b>
<b>Total Liabilities</b>	<b>\$ 2,009</b>	<b>\$ 11,123</b>	<b>\$ --</b>	<b>\$ 3,271,628</b>	<b>\$ 3,284,760</b>
<b>NET POSITION</b>					
Invested in capital assets, net of related debt	\$ 1,770,850	\$ 4,374,071	\$ 304,701	\$ (1,175,724)	\$ 5,273,898
Restricted for:					
Restricted assets	232,909	211,154	--	7,194	451,257
Prepaid items	2,975	1,645	--	124,736	129,356
Unrestricted	198,335	2,833,584	165,490	574,939	3,772,348
<b>Total Net Position</b>	<b>\$ 2,205,069</b>	<b>\$ 7,420,454</b>	<b>\$ 470,191</b>	<b>\$ (468,855)</b>	<b>\$ 9,626,859</b>

See Notes to Financial Statements.

## Proprietary Funds

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

For the Year Ended December 31, 2017

	Water Utility Fund	Sewer Utility Fund	Storm Water Fund	Wild River Apartment Fund	Total
Operating revenues:					
Sales & charges for services	\$ 243,777	\$ 296,277	\$ 44,115	\$ 672,514	\$ 1,256,683
Miscellaneous	6,713	1,953	--	--	8,666
Total operating revenues	<u>250,490</u>	<u>298,230</u>	<u>44,115</u>	<u>672,514</u>	<u>1,265,349</u>
Operating expenses:					
Maintenance and operations	144,284	127,879	9,681	405,552	687,396
Depreciation	107,684	213,390	21,057	111,661	453,792
Total Operating Expenses	<u>251,968</u>	<u>341,269</u>	<u>30,738</u>	<u>517,213</u>	<u>1,141,188</u>
Operating Income (Loss)	<u>(1,478)</u>	<u>(43,039)</u>	<u>13,377</u>	<u>155,301</u>	<u>124,161</u>
Nonoperating revenues (expenses):					
Interest earned	1,346	46,965	514	400	49,225
Sale of Assets/Property	--	--	--	--	--
Interest expense	--	--	--	(60,591)	(60,591)
Total nonoperating revenues (expenses)	<u>1,346</u>	<u>46,965</u>	<u>514</u>	<u>(60,191)</u>	<u>(11,366)</u>
Net Income (Loss) Before Transfers and Contributions	(132)	3,926	13,891	95,110	112,795
Transfers in	--	--	--	60,591	60,591
Transfers out	<u>(38,000)</u>	<u>(250)</u>	<u>(5,400)</u>	<u>--</u>	<u>(43,650)</u>
Changes in net position	<u>(38,132)</u>	<u>3,676</u>	<u>8,491</u>	<u>155,701</u>	<u>129,736</u>
Total net position - beginning	2,243,201	7,416,737	461,700	(624,556)	9,497,082
Prior Period Adjustment	--	41	--	--	41
Net position - beginning, as Restated	<u>2,243,201</u>	<u>7,416,778</u>	<u>461,700</u>	<u>(624,556)</u>	<u>9,497,123</u>
Total net position - ending	<u>\$ 2,205,069</u>	<u>\$ 7,420,454</u>	<u>\$ 470,191</u>	<u>\$ (468,855)</u>	<u>\$ 9,626,859</u>

See Notes to Financial Statements.

## Proprietary Funds

**STATEMENT OF CASH FLOWS**

For the Year Ended December 31, 2017

	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	\$ 250,267	\$ 296,624	\$ 50,780	\$ 683,311	\$ 1,280,982
Cash payments to suppliers	(145,348)	(94,708)	(9,681)	(389,856)	(639,593)
Net Cash Provided (Used) by Operating Activities	<u>104,919</u>	<u>201,916</u>	<u>41,099</u>	<u>293,455</u>	<u>641,389</u>
<u>Cash Flows from Noncapital Financing Activities:</u>					
Transfers in	--	--	--	60,591	60,591
Transfers out	(38,000)	(250)	(5,400)	--	(43,650)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(38,000)</u>	<u>(250)</u>	<u>(5,400)</u>	<u>60,591</u>	<u>16,941</u>
<u>Cash Flows from Capital and Related Financing Activities:</u>					
Interest & fiscal charges paid on capital debt	--	--	--	(60,591)	(60,591)
Principal paid on capital debt	--	--	--	(220,000)	(220,000)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>--</u>	<u>--</u>	<u>--</u>	<u>(280,591)</u>	<u>(280,591)</u>
<u>Cash Flows from Investing Activities:</u>					
Property purchases	--	(74,730)	--	(19,467)	(94,197)
Purchased investments	--	--	--	--	--
Working capital adjustment	--	41	--	--	41
Interest earned	1,346	46,965	514	400	49,225
Net Cash Provided (Used) by Investing Activities	<u>1,346</u>	<u>(27,724)</u>	<u>514</u>	<u>(19,067)</u>	<u>(44,931)</u>
Net Increase (Decrease) in Cash	68,265	173,942	36,213	54,388	332,808
Cash, January 1	<u>355,077</u>	<u>2,789,268</u>	<u>131,902</u>	<u>572,089</u>	<u>3,848,336</u>
Cash, December 31	<u>\$ 423,342</u>	<u>\$ 2,963,210</u>	<u>\$ 168,115</u>	<u>\$ 626,477</u>	<u>\$ 4,181,144</u>

See Notes to Financial Statements.

## Proprietary Funds

**STATEMENT OF CASH FLOWS**

For the Year Ended December 31, 2017

	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)	\$ (1,478)	\$ (43,039)	\$ 13,377	\$ 155,701	\$ 124,561
<u>Adjustments to Reconcile Operating Income (Loss) to</u>					
<u>Net Cash Provided (Used) by Operating Activities:</u>					
Depreciation	107,684	213,390	21,057	111,661	453,792
<u>Changes in Assets and Liabilities:</u>					
(Increase) decrease in accounts receivable	(224)	(1,606)	6,665	10,397	15,232
(Increase) decrease in due from other funds	--	23,363	--	--	23,363
(Increase) decrease in special assessments	309	1,801	--	--	2,110
(Increase) decrease in bond discount	--	--	--	21,986	21,986
(Increase) decrease in prepaid expenses	(1,467)	(244)	--	(498)	(2,209)
Increase (decrease) in accounts payable	403	9,256	--	(5,892)	3,767
Increase (decrease) in deferred revenue	(308)	(1,005)	--	--	(1,313)
Increase (decrease) in due to other funds	--	--	--	--	--
Increase (decrease) in security deposits	--	--	--	40	40
Increase (decrease) in interest payable	--	--	--	60	60
Total Adjustments	<u>106,397</u>	<u>244,955</u>	<u>27,722</u>	<u>137,754</u>	<u>516,828</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 104,919</u>	<u>\$ 201,916</u>	<u>\$ 41,099</u>	<u>\$ 293,455</u>	<u>\$ 641,389</u>

See Notes to Financial Statements.

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CITY OF SANDSTONE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2017

CITY OF SANDSTONE, MINNESOTA  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2017

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 separate 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, with two additional at large appointments, and assets are managed by city employees.

Wild River Apartments

The purpose of the Wild River Apartments is to provide rental housing facilities for senior tenants (Seniors) and multi-family rental housing for families (Townhomes). 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, 2017

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, 2017

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.

CITY OF SANDSTONE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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.,

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, 2017

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, which 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, 2017

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, 2017

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 been consumed.

I. Total Columns on Combined Statements

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

J. Recognition of Property Tax Revenue

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

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

K. Tax Abatements

The City enters into property tax abatement agreements with local businesses under the State of Minnesota Statutes 469. Under the Statutes, localities may grant property tax abatements of up to 10 percent of the net tax capacity of the City for the purpose of attracting or retaining businesses within their jurisdictions. The abatements may be granted to any business located within or promising to

For fiscal year ended December 31, 2017, the City abated property taxes totaling \$5,375 under this program, including the following tax abatement agreements:

- A tax abatement agreement with a local business to encourage housing creation. The agreement is to abate ninety percent of city-related property taxes, and the amount abated was \$5,375.

CITY OF SANDSTONE, MINNESOTA  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2017

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, 2017, are as follows:

	Bank Balance	Carrying Amount
Insured or collateralized by securities held by the City or its agent in the City's name	\$ 6,586,372	\$ 6,532,421
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	\$ 6,586,372	\$ 6,532,421

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, 2017

NOTE 2: CASH AND INVESTMENTS (Continued)

B. Investments (Continued)

Investment balances as of December 31, 2017, are as follows:

	Fair Value
Members Cooperative Credit Union - CDs	\$ 23,644
USB	-
Citigroup Smith Barney	2,806,290
Total	\$ 2,829,934

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

Cash and cash equivalents	\$ 2,508,217
Cash with fiscal agent	71,044
Investments	2,829,934
Restricted cash	1,123,226
Restricted investments	--
Total	\$ 6,532,421

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, 2017, 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, 2017

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, 2017, and descriptions are as follows:

	Restricted Cash	Prepaid Items
General fund	\$ 150,685	\$ 14,022
Special revenue funds	5,261	--
Capital projects	516,023	--
Enterprise funds	451,257	14,137
	\$ 1,123,226	\$ 28,159

NOTE 3: DUE FROM OTHER GOVERNMENTAL UNITS

There are no amounts due from other governmental units at December 31, 2017.

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, 2017 are as follows:

CITY OF SANDSTONE, MINNESOTA  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2017

NOTE 4: LONG-TERM DEBT (Continued)

<u>General Obligation Bonds:</u>	<u>Interest Rates</u>	<u>Maturity</u>	<u>Balance 12/31/17</u>	<u>Due Within One Year</u>
G.O. Refunding 2009 Series A	2.00-4.20%	2024	\$ 315,000	\$ 45,000
G.O. Refunding 2009 Series B	3.25%	2020	75,000	25,000
PFA G.O. Water Revenue Note	2.11%	2019	50,000	25,000
G.O. Refunding 2012 Series A	.5-2.6%	2023	210,000	45,000
Total General Obligation			<u>\$ 650,000</u>	<u>\$ 140,000</u>
 <u>Business-Type Activities:</u>				
EDA Refunding Bonds 2012	3-3.6%	2029	\$ 3,225,000	\$ 225,000
Total Business-Type Activities			<u>\$ 3,225,000</u>	<u>\$ 225,000</u>

The changes in the long-term debt of the City during 2017 are presented below:

<u>Governmental Activities</u>	<u>Balance 12/31/16</u>	<u>New Issues</u>	<u>Debt Retired</u>	<u>Balance 12/31/17</u>
G.O. Refunding 2009 Series A	\$ 355,000		\$ 40,000	\$ 315,000
G.O. Refunding 2009 Series B	100,000	--	25,000	75,000
PFA G.O. Water Revenue Note	74,000	--	24,000	50,000
\$340,000 Lease Purchase	241,000	--	241,000	--
G.O. Refunding 2012 Series A	245,000	--	35,000	210,000
G.O. Temp Impr Series 2015A	1,200,000	--	1,200,000	--
Total G.O. Debt	<u>\$ 2,215,000</u>	<u>\$ --</u>	<u>\$ 1,565,000</u>	<u>\$ 650,000</u>
 <u>Business-Type Activities</u>				
EDA Refunding Bonds 2012	3,445,000	--	220,000	3,225,000
	<u>\$ 3,445,000</u>	<u>\$ --</u>	<u>\$ 220,000</u>	<u>\$ 3,225,000</u>

CITY OF SANDSTONE, MINNESOTA  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2017

NOTE 4: LONG-TERM DEBT (Continued)

The annual requirement to amortize all long-term debt outstanding as of December 31, 2017 including interest payments for the next five years, are summarized below:

Year Ending December 31	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2018	140,000	18,906	225,000	100,838
2019	120,000	15,386	235,000	93,938
2020	100,000	11,799	240,000	86,813
2021	80,000	8,898	245,000	79,538
2022	85,000	6,142	255,000	72,038
2023-2027	125,000	3,815	1,400,000	232,059
2028-2030	--	--	625,000	22,770
Total	<u>\$ 650,000</u>	<u>\$ 64,946</u>	<u>\$ 3,225,000</u>	<u>\$ 687,994</u>

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

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.

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, 2017

NOTE 5: DEFINED BENEFIT PENSION PLAN (Continued)

A. Defined Benefit Pension Plan - Statewide (Continued)

1. Plan Description (Continued)

*Benefits Provided*

PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state legislature. Benefit increases are provided to benefit recipients each January. Increases 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

CITY OF SANDSTONE, MINNESOTA  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2017

NOTE 5: DEFINED BENEFIT PENSION PLAN (Continued)

A. Defined Benefit Pension Plan - Statewide (Continued)

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 2017. 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 2017. The City of Sandstone's contributions to the GERF for the year ended December 31, 2017, were \$21,377. The City of Sandstone's contributions were equal to the required contributions as set by state statute.

3. Pensions Costs

At December 31, 2017, the City of Sandstone reported a liability of \$280,893 for its proportionate share of the GERF's net pension liability. The City of Sandstone's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$6 million to the fund in 2017. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the City of Sandstone totaled \$3,551. The net pension liability was measured as of June 30, 2017, 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, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the City of Sandstone's proportion share was 0.0044% which was a decrease of 0.0002% from its proportion measured as of June 30, 2016.

CITY OF SANDSTONE, MINNESOTA  
**NOTES TO FINANCIAL STATEMENTS**  
 December 31, 2017

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

3. Pension Costs (Continued)

For the year ended December 31, 2017, the City of Sandstone recognized pension expense of \$7,462 for its proportionate share of the GERF's pension expense. In addition, the City of Sandstone recognized an additional \$103 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$6 million to GERF.

At December 31, 2017, the City of Sandstone reported its proportionate share of the GERF's deferred outflow of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	--	19,065
Changes in actuarial assumptions	48,754	--
Difference between projected and actual investments earnings	52,249	--
Changes in proportion	--	23,234
Contribution paid to PERA subsequent to the measurement date	21,399	--
Total	\$ 122,402	\$ 42,299

\$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, 2018. 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
2018	19,609
2019	29,662
2020	9,433
Thereafter	--

4. Actuarial Assumptions

The total pension liability in the June 30, 2017, 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 disabilitants 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 through 2044, then 2.5% thereafter for GERF.

Actuarial assumptions used in the June 30, 2017, valuation were based on the results of actuarial experience studies. The most recent 4-year experience study in GERF was completed in 2015.

CITY OF SANDSTONE, MINNESOTA  
**NOTES TO FINANCIAL STATEMENTS**  
 December 31, 2017

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 2017:

GERF

The Combined Service Annuity (CSA) loads were changed from 0.8% for active members and 60% for vested and non-vested deferred members. The revised CSA loads are now 0.0% for active member liability, 15.0% for vested deferred member liability and 3.0% for non-vested deferred member liability. The assumed post-retirement benefit increase rate was changed from 1.0% per year for all years to 1% per year through 2044 and 2.5% per year thereafter.

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 geometric 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	39%	5.10%
International Stocks	19%	5.30%
Bonds	20%	0.75%
Alternative Assets	20%	5.90%
Cash	2%	0.00%

5. Discount Rate

The discount rate used to measure the total pension liability in 2017 was 7.5%. 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 these assumptions, the fiduciary net positions were 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, 2017

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:	\$435,686	\$280,893	\$154,167

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](http://www.mnpera.org).

B. Public Employees Defined Contribution Plan (Defined Contribution Plan)

All council members are covered by the Defined Contribution Plan, a multiple-employer deferred compensation plan administered by PERA. The Defined Contribution Plan is a tax qualified plan under Section 401(a) of the Internal Revenue Code and all contributions by or on behalf of employees are tax deferred until time of withdrawal.

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. Minnesota Statutes, Chapter 353D.03, specifies plan provisions, including the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes 5% of salary which is matched by the elected official's employer. For ambulance service personnel, employer contributions are determined by the employer, and for salaried employees contributions must be a fixed percentage of salary. Employer contributions for volunteer personnel may be a unit value for each call or period of alert duty. Employees who are paid for their services may elect to make member contributions in an amount not to exceed the employer share. Employer and employee contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2% of employer contributions and twenty-five hundredths of one percent (0.0025) of the assets in each member's account annually.

Contribution Amount		Percentage of Covered Payroll		Required Rate
Employee	Employer	Employee	Employer	
\$ 17,844	\$ 21,377	5%	5%	5%

CITY OF SANDSTONE, MINNESOTA  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2017

NOTE 6: SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The City maintains four enterprise funds which provide water, sewer, storm water, and rental properties. Segment information for the year ended December 31, 2017, is as follows:

	<u>Water</u>	<u>Sewer</u>	<u>Storm</u>	<u>Wild River</u>
Operating revenues	<u>\$ 250,490</u>	<u>\$ 298,230</u>	<u>\$ 44,115</u>	<u>\$ 672,514</u>
Expenses:				
Depreciation	\$ 107,684	\$ 213,390	\$ 21,057	\$ 111,661
Other	144,284	127,879	9,681	405,552
Total expenses	<u>\$ 251,968</u>	<u>\$ 341,269</u>	<u>\$ 30,738</u>	<u>\$ 517,213</u>
Nonoperating revenues (expenses)	<u>\$ 1,346</u>	<u>\$ 46,965</u>	<u>\$ 514</u>	<u>\$ (60,191)</u>
Net income (loss)	<u>\$ (132)</u>	<u>\$ 3,926</u>	<u>\$ 13,891</u>	<u>\$ 95,110</u>
Total assets	<u>\$ 2,207,078</u>	<u>\$ 7,431,577</u>	<u>\$ 470,191</u>	<u>\$ 2,802,773</u>
Fund equity	<u>\$ 2,205,069</u>	<u>\$ 7,420,454</u>	<u>\$ 470,191</u>	<u>\$ (468,855)</u>
Capital expenditures - net	<u>\$ 1,770,850</u>	<u>\$ 4,374,071</u>	<u>\$ 304,701</u>	<u>\$ 2,049,276</u>

CITY OF SANDSTONE, MINNESOTA  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2017

NOTE 7: DEFICIT FUND BALANCES

There were five funds with a deficit fund balance at the individual fund level at December 31, 2017.

Capital Project-EDA Public Works	\$ (464,610)
Capital Project-Tax Abatement Financing	(70)
Capital Project-Tax Increment Financing	(5,143)
Medical and Business Park	(670,295)
Enterprise - Wild River Apartments	(468,855)
	\$ (1,608,973)

NOTE 8: APPROPRIATIONS/EXPENDITURES OVER REVENUES

Expenditures exceeded revenues in certain individual funds For the Year Ended December 31, 2017, as follows:

	Expenditures	Revenues	Difference
Debt Service - 1999 PFA Water GO	25,561	42	25,519
Debt Service - \$1.2M GO Temp Improvement 2015A	1,218,000	2	1,217,998
Debt Service - \$340,000 Lease Purchase	253,308	30	253,278
Debt Service - \$405,000 2012A GO Improvement	39,518	36,157	3,361
Debt Service - \$665,000 GO Refunding	53,805	43,799	10,006
Tax Abatement	5,375	5,305	70
EDA Public Works	463,560	--	463,560
EDA	19,589	9,803	9,786
Medical and Business Park	1,496,535	--	1,496,535
Tax Increment Financing	1,037	--	1,037

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:

	Expenditures	Budget	Variance
Tax Abatement	\$ 5,375	\$ 4,800	\$ 575
EDA Public Works Federal Grant Fund	463,560	--	463,560
Tax Increment Financing	1,037	--	1,037
Minnesota DOT Grant	238,502	--	238,502
EDA Special Revenue	19,589	6,500	13,089
GO Temp Improvement 1.2M 2015A	1,218,000	--	1,218,000
\$340,000 Lease Purchase	253,308	--	253,308
EDA Wild River Reserve	7,000	--	7,000

CITY OF SANDSTONE, MINNESOTA  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2017

NOTE 11: INTERFUND RECEIVABLES AND PAYABLES

The amounts due to and due from other funds at December 31, 2017, at the individual fund level are summarized below:

Funds	Due From Other Funds	Due To Other Funds
General	\$ 800,941	\$ --
Capital Projects:		
Capital Projects	670,295	171,846
Minnesota DOT Grant	--	238,502
Medical Business Park		670,295
Tax Abatement		1,153
Tax Increment	--	5,143
Enterprise Fund:		
Sewer	74,017	--
Debt Service Fund:		
GO Temp Impr 1.2m	6,296	--
Special Revenue:		
EDA CED Loan	168,839	--
EDA Public Works	--	464,610
EDA	--	168,839
	\$ 1,720,388	\$ 1,720,388
Totals		

NOTE 12: CONTINGENCIES AND COMMITMENTS

In connection with the normal conduct of its affairs, the City is involved in various claims and litigation. 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.

NOTE 13: PROMISSORY NOTE RECEIVABLE

On July 26, 2016 the city granted a promissory note to Midwest Properties of Sandstone, LLC in the amount of \$92,647. The principal of this note is due from Midwest Properties, LLC, without interest, by July 1, 2041. If Midwest Properties of Sandstone, LLC, sells, assigns, conveys, leases or transfers in any other mode or manner all or any portion of the property, the note becomes due on that date, prior to July 1, 2041.

CITY OF SANDSTONE, MINNESOTA  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2017

NOTE 14: CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2017, are as follows:

<u>Governmental Activities</u>	Beginning Balances	Increase	Decrease	Ending Balances
Capital Assets:				
Land	\$ 627,868	\$ --	\$ --	\$ 627,868
Infrastructure	7,533,429	31,975	--	7,565,404
Buildings and improvements	1,833,365	53,557	--	1,886,922
Equipment	1,164,082	2,100	16,862	1,149,320
Total Capital Assets	<u>11,158,744</u>	<u>87,632</u>	<u>16,862</u>	<u>11,229,514</u>
Less: Accumulated Depreciation for:				
Infrastructure	5,302,156	193,921	--	5,496,077
Buildings and improvements	1,207,746	47,392	--	1,255,138
Equipment	869,131	54,677	16,862	906,946
Total Accumulated Depreciation	<u>7,379,033</u>	<u>295,990</u>	<u>16,862</u>	<u>7,658,161</u>
Total Capital Assets, Net of Depreciation	<u>\$ 3,779,711</u>	<u>\$ (208,358)</u>	<u>\$ --</u>	<u>\$ 3,571,353</u>
<u>Business - Type Activities</u>				
Capital Assets:				
Land	\$ 157,015	\$ --	\$ --	\$ 157,015
Buildings and improvements	20,090,196	88,059	--	20,178,255
Equipment	90,106	23,572	--	113,678
Total Capital Assets	<u>20,337,317</u>	<u>111,631</u>	<u>--</u>	<u>20,448,948</u>
Less: Accumulated Depreciation for:				
Buildings and improvements	11,321,193	453,792	(104,130)	11,879,115
Equipment	64,364	6,571	--	70,935
Total Accumulated Depreciation	<u>11,385,557</u>	<u>460,363</u>	<u>(104,130)</u>	<u>11,950,050</u>
Business - Type Capital Assets, Net	<u>\$ 8,951,760</u>	<u>\$ (348,732)</u>	<u>\$ 104,130</u>	<u>\$ 8,498,898</u>

CITY OF SANDSTONE, MINNESOTA  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2017

NOTE 14: CAPITAL ASSETS (Continued)

Depreciation expense was charged to function/programs as follows:

Governmental Activities	
General government	\$ 209,933
Public safety	54,565
Public works	23,036
Culture and recreation	6,848
Unallocated	1,608
Total Depreciation Expense - Governmental Activities	\$ 295,990
Business - Type Activities	
Water utility	107,684
Sewer utility	213,390
Storm Water	21,057
Wild River Apartments	111,661
Total Depreciation Expense - Business - Type Activities	\$ 453,792

NOTE 15: GASB 54 FUND BALANCE REPORTING

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

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

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

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

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City of Sandstone, Minnesota  
REQUIRED SUPPLEMENTARY INFORMATION OTHER  
THAN MANAGEMENT'S DISCUSSION AND  
ANALYSIS (UNAUDITED)  
December 31, 2017

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, 2017

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
2017	0.0044%	\$ 280,893	\$ 289,071	97.2%	75.9%
2016	0.0046%	\$ 373,497	\$ 290,544	128.6%	63.8%
2015	0.0048%	\$ 248,761	\$ 283,252	87.8%	78.7%

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

Schedule of City's Contributions

Fiscal Year Ending December 31,	Statutory Required Contribution (a)	Contributions in Relation to the Statutorily Required Contributions (b)	Contribution Deficiency (Excess) (a-b)	Covered Employee Payroll (d)	Contributions as a Percentage of Covered Employee Payroll (b/d)
2017	\$ 21,680	\$ 21,680	\$ --	\$ 289,071	7.50%
2016	\$ 21,791	\$ 21,791	\$ --	\$ 290,544	7.50%
2015	\$ 20,946	\$ 20,946	\$ --	\$ 283,252	7.39%

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

CITY OF SANDSTONE, MINNESOTA  
COMBINING AND INDIVIDUAL FUND  
STATEMENTS AND SCHEDULES  
December 31, 2017

CITY OF SANDSTONE, MINNESOTA  
 Nonmajor Governmental Funds  
**COMBINING BALANCE SHEET**  
 December 31, 2017

	Special Revenue Funds			
	Cemetery Permanent Care	EDA Wild River Capital Expense	EDA Wild River Reserve	EDA CED Special Revenue
<b>ASSETS</b>				
Cash & cash equivalents	\$ 96,936	\$ 14,712	\$ 222,044	\$ 180,626
Investments	23,644	120,000	--	--
Accounts receivable	--	--	--	2,616
Delinquent property tax	--	--	9,454	--
Special assessment	--	--	--	--
Special assessment deferred	--	--	--	--
Due from other funds	--	--	--	168,839
Bond discount	--	--	--	--
Restricted cash	--	--	--	5,261
Total assets	<u>\$ 120,580</u>	<u>\$ 134,712</u>	<u>\$ 231,498</u>	<u>\$ 357,342</u>
<b>LIABILITIES AND FUND BALANCE</b>				
<u>Liabilities:</u>				
Cash in bank (overdraft)	\$ --	\$ --	\$ --	\$ --
Due to other funds	--	--	--	--
Unearned revenue	--	--	9,454	--
Total liabilities	<u>--</u>	<u>--</u>	<u>9,454</u>	<u>--</u>
<u>Fund Balance:</u>				
Reserved	<u>120,580</u>	<u>134,712</u>	<u>222,044</u>	<u>357,342</u>
Total fund balance	<u>120,580</u>	<u>134,712</u>	<u>222,044</u>	<u>357,342</u>
Total liabilities and fund balance	<u>\$ 120,580</u>	<u>\$ 134,712</u>	<u>\$ 231,498</u>	<u>\$ 357,342</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
\$ 514,318	\$ 4,137	\$ 57,092	\$ 70,101	\$ 99,600
143,644	--	--	--	--
2,616	--	--	--	--
9,454	--	3,309	1,777	1,442
--	--	237	798	--
--	--	--	--	11,801
168,839	--	6,296	--	--
--	--	--	--	--
5,261	--	--	--	--
<u>\$ 844,132</u>	<u>\$ 4,137</u>	<u>\$ 66,934</u>	<u>\$ 72,676</u>	<u>\$ 112,843</u>
\$ --	\$ --	\$ --	\$ --	\$ --
--	--	--	--	--
9,454	--	3,546	2,575	13,243
<u>9,454</u>	<u>--</u>	<u>3,546</u>	<u>2,575</u>	<u>13,243</u>
834,678	4,137	63,388	70,101	99,600
<u>834,678</u>	<u>4,137</u>	<u>63,388</u>	<u>70,101</u>	<u>99,600</u>
<u>\$ 844,132</u>	<u>\$ 4,137</u>	<u>\$ 66,934</u>	<u>\$ 72,676</u>	<u>\$ 112,843</u>

CITY OF SANDSTONE, MINNESOTA  
 Nonmajor Governmental Funds  
**COMBINING BALANCE SHEET**  
 December 31, 2017

	Debt Service Funds			Capital Project
	General Obligation Temp Impr 1.2M 2015A	\$340,000 Lease Purchase Public Works	Debt Service Total	Tax Increment Financing
<b>ASSETS</b>				
Cash & cash equivalents	\$ --	\$ --	\$ 230,930	\$ --
Investments	--	--	--	--
Accounts receivable	--	--	--	--
Delinquent property tax	--	--	6,528	--
Special assessment	--	--	1,035	--
Special assessment deferred	--	--	11,801	--
Due from other funds	--	--	6,296	--
Bond discount	--	--	--	--
Restricted cash	--	--	--	--
Total Assets	\$ --	\$ --	\$ 256,590	\$ --
<b>LIABILITIES AND FUND BALANCE</b>				
<u>Liabilities:</u>				
Cash in bank (overdraft)	\$ --	\$ --	\$ --	\$ --
Due to other funds	--	--	--	5,143
Deferred revenue	--	--	19,364	--
Total Liabilities	--	--	19,364	5,143
<u>Fund Balance:</u>				
Reserved	--	--	237,226	(5,143)
Total Fund Balance	--	--	237,226	(5,143)
Total Liabilities and Fund Balance	\$ --	\$ --	\$ 256,590	\$ --

Tax Abatement	Capital Projects Total	Total Nonmajor Governmental Funds
\$ --	\$ --	\$ 745,248
--	--	143,644
1,083	1,083	3,699
--	--	15,982
--	--	1,035
--	--	11,801
--	--	175,135
--	--	--
--	--	5,261
<u>\$ 1,083</u>	<u>\$ 1,083</u>	<u>1,101,805</u>
\$ --	\$ --	\$ --
1,153	6,296	6,296
--	--	28,818
<u>1,153</u>	<u>6,296</u>	<u>35,114</u>
<u>(70)</u>	<u>(5,213)</u>	<u>1,066,691</u>
<u>(70)</u>	<u>(5,213)</u>	<u>1,066,691</u>
<u>\$ 1,083</u>	<u>\$ 1,083</u>	<u>\$ 1,101,805</u>

CITY OF SANDSTONE, MINNESOTA  
Nonmajor Governmental Funds  
**Combined Statement of Revenues, Expenditures and Changes in Fund Balance**  
For the Year Ended December 31, 2017

	Special Revenue Funds			
	Cemetery Permanent Care	EDA Wild River Capital Expense	EDA Wild River Reserve	EDA CED Special Revenue
<b>REVENUES</b>				
Property tax	\$ --	\$ 55,000	\$ 69,136	\$ --
Interest	699	--	612	427
Special assessments	--	--	--	--
Miscellaneous	2,100	--	--	--
Total Revenues	<u>2,799</u>	<u>55,000</u>	<u>69,748</u>	<u>427</u>
<b>EXPENDITURES</b>				
Contractual services	--	--	--	--
Bond principal	--	--	--	--
Interest	--	--	--	--
Miscellaneous	--	16,692	7,000	--
Total Expenditures	<u>--</u>	<u>16,692</u>	<u>7,000</u>	<u>--</u>
Excess (deficiency) of revenue over (under) expenditures	<u>2,799</u>	<u>38,308</u>	<u>62,748</u>	<u>427</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfer in	--	--	--	--
Transfer out	--	--	(60,591)	--
Total Other Financing Source (uses)	<u>--</u>	<u>--</u>	<u>(60,591)</u>	<u>--</u>
Net change in fund balances	2,799	38,308	2,157	427
Fund Balances - beginning	<u>117,781</u>	<u>96,404</u>	<u>219,887</u>	<u>356,915</u>
Fund Balances - ending	<u>\$ 120,580</u>	<u>\$ 134,712</u>	<u>\$ 222,044</u>	<u>\$ 357,342</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
\$ 124,136	\$ --	\$ 43,692	\$ 23,467	\$ 19,680
1,738	42	107	177	249
--	--	--	4,705	16,228
2,100	--	--	--	--
<u>127,974</u>	<u>42</u>	<u>43,799</u>	<u>28,349</u>	<u>36,157</u>
--	--	--	--	--
--	24,000	40,000	25,000	35,000
--	1,561	13,355	2,844	4,518
23,692	--	450	--	--
<u>23,692</u>	<u>25,561</u>	<u>53,805</u>	<u>27,844</u>	<u>39,518</u>
<u>104,282</u>	<u>(25,519)</u>	<u>(10,006)</u>	<u>505</u>	<u>(3,361)</u>
--	26,000	12,000	--	5,400
(60,591)	--	--	--	--
<u>(60,591)</u>	<u>26,000</u>	<u>12,000</u>	<u>--</u>	<u>5,400</u>
43,691	481	1,994	505	2,039
<u>790,987</u>	<u>3,656</u>	<u>61,394</u>	<u>69,596</u>	<u>97,561</u>
<u>\$ 834,678</u>	<u>\$ 4,137</u>	<u>\$ 63,388</u>	<u>\$ 70,101</u>	<u>\$ 99,600</u>

CITY OF SANDSTONE, MINNESOTA  
 Nonmajor Governmental Funds  
**Combined Statement of Revenues, Expenditures and Changes in Fund Balance**  
 For the Year Ended December 31, 2017

	Debt Service Funds			Capital Project
	General Obligation Temp Impr 1.2M 2015A	\$340,000 Lease Purchase Public Works	Debt Service Total	Tax Increment Financing
<b>REVENUES</b>				
Property taxes	\$ --	\$ --	\$ 86,839	\$ --
Interest	2	30	607	--
Special assessments	--	--	20,933	--
Miscellaneous	--	--	--	--
Total Revenues	2	30	108,379	--
<b>EXPENDITURES</b>				
Contractual services	--	--	--	893
Bond principal	1,200,000	241,000	1,565,000	--
Interest	18,000	12,308	52,586	--
Miscellaneous	--	--	450	144
Total Expenditures	1,218,000	253,308	1,618,036	1,037
Excess (deficiency) of revenues over (under) expenditures	(1,217,998)	(253,278)	(1,509,657)	(1,037)
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfer in	1,208,946	250,980	1,503,326	--
Transfer out	--	--	--	--
Total Other Financing Sources (uses)	1,208,946	250,980	1,503,326	--
Net change in fund balances	(9,052)	(2,298)	(6,331)	(1,037)
Fund balance - beginning	9,052	2,298	243,557	(4,106)
Fund balances - ending	\$ --	\$ --	\$ 237,226	\$ (5,143)

<u>Capital Project Funds</u>		
<u>Tax Abatement</u>	<u>Capital Projects Total</u>	<u>Total Nonmajor Governmental Funds</u>
\$ 3,139	\$ 3,139	\$ 214,114
--	--	2,345
--	--	20,933
2,166	2,166	4,266
<u>5,305</u>	<u>5,305</u>	<u>241,658</u>
5,375	6,268	6,268
--	--	1,565,000
--	--	52,586
--	144	24,286
<u>5,375</u>	<u>6,412</u>	<u>1,648,140</u>
<u>(70)</u>	<u>(1,107)</u>	<u>(1,406,482)</u>
--	--	1,503,326
--	--	(60,591)
<u>--</u>	<u>--</u>	<u>1,442,735</u>
(70)	(1,107)	36,253
<u>--</u>	<u>(4,106)</u>	<u>1,030,438</u>
<u>\$ (70)</u>	<u>\$ (5,213)</u>	<u>\$ 1,066,691</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, 2017

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>			
Interest earned	\$ --	\$ 427	\$ 427
Miscellaneous	--	--	--
Total Revenues	<u>--</u>	<u>427</u>	<u>427</u>
<b>EXPENDITURES</b>			
Expenditures	--	--	--
Total Expenditures	<u>--</u>	<u>--</u>	<u>--</u>
Excess (deficiency) of revenues over (under) expenditures	--	427	427
Fund Balance - beginning	<u>356,915</u>	<u>356,915</u>	<u>--</u>
Fund Balance - ending	<u>\$ 356,915</u>	<u>\$ 357,342</u>	<u>\$ 427</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, 2017

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>			
Interest earned	\$ 300	\$ 699	\$ 399
Miscellaneous	2,000	2,100	100
Total Revenues	<u>2,300</u>	<u>2,799</u>	<u>499</u>
<b>EXPENDITURES</b>			
Expenditures	--	--	--
Total Expenditures	<u>--</u>	<u>--</u>	<u>--</u>
Excess (deficiency) of revenues over (under) expenditures	2,300	2,799	499
Fund Balance - beginning	<u>117,781</u>	<u>117,781</u>	<u>--</u>
Fund Balance - ending	<u>\$ 120,081</u>	<u>\$ 120,580</u>	<u>\$ 499</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, 2017

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>			
Interest earned	\$ 200	\$ --	\$ (200)
Property tax	20,000	55,000	35,000
Miscellaneous	15,600	--	(15,600)
Total Revenues	<u>35,800</u>	<u>55,000</u>	<u>19,200</u>
<b>EXPENDITURES</b>			
Miscellaneous	31,600	16,692	(14,908)
Total Expenditures	<u>31,600</u>	<u>16,692</u>	<u>(14,908)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>4,200</u>	<u>38,308</u>	<u>34,108</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	--	--	--
Total other financing sources (uses)	<u>--</u>	<u>--</u>	<u>--</u>
Net change in fund balances	4,200	38,308	34,108
Fund Balance - beginning	<u>96,404</u>	<u>96,404</u>	<u>--</u>
Fund Balance - ending	<u>\$ 100,604</u>	<u>\$ 134,712</u>	<u>\$ 34,108</u>

## EDA Wild River Reserve Fund

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

For the Year Ended December 31, 2017

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>			
Property tax	\$ 100,000	\$ 69,136	\$ (30,864)
Interest	--	612	612
Total Revenues	<u>100,000</u>	<u>69,748</u>	<u>(30,252)</u>
<b>EXPENDITURES</b>			
Expenditures	--	7,000	7,000
Total Expenditures	<u>--</u>	<u>7,000</u>	<u>7,000</u>
Excess (deficiency) of revenues over (under) expenditures	<u>100,000</u>	<u>62,748</u>	<u>(37,252)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers (out)	100,000	(60,591)	(160,591)
Total other financing sources (uses)	<u>100,000</u>	<u>(60,591)</u>	<u>(160,591)</u>
Net change in fund balances	200,000	2,157	(197,843)
Fund Balance - beginning	<u>219,887</u>	<u>219,887</u>	<u>--</u>
Fund Balance - ending	<u>\$ 419,887</u>	<u>\$ 222,044</u>	<u>\$ (197,843)</u>

CITY OF SANDSTONE, MINNESOTA  
 \$655,000 General Obligation Refunding Bonds, Series 2009A

Schedule 8

**Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual**  
 For the Year Ended December 31, 2017

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>			
Property taxes	\$ 42,000	\$ 43,692	\$ 1,692
Special assessments	--	--	--
Interest	--	107	107
Total Revenues	<u>42,000</u>	<u>43,799</u>	<u>1,799</u>
<b>EXPENDITURES</b>			
Bond principal	40,000	40,000	--
Interest	13,355	13,355	--
Fiscal agent fees	950	450	(500)
Total Expenditures	<u>54,305</u>	<u>53,805</u>	<u>(500)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(12,305)</u>	<u>(10,006)</u>	<u>2,299</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	12,000	12,000	--
Total other financing sources (uses)	<u>12,000</u>	<u>12,000</u>	<u>--</u>
Net change in fund balances	(305)	1,994	2,299
Fund Balance - beginning	<u>61,394</u>	<u>61,394</u>	<u>--</u>
Fund Balance - ending	<u>\$ 61,089</u>	<u>\$ 63,388</u>	<u>\$ 2,299</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, 2017

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>			
Property tax	\$ 22,500	\$ 23,467	\$ 967
Special Assessments	4,000	4,705	705
Interest	--	177	177
Total Revenues	<u>26,500</u>	<u>28,349</u>	<u>1,849</u>
<b>EXPENDITURES</b>			
Bond principle	25,000	25,000	--
Interest	2,844	2,844	--
Total Expenditures	<u>27,844</u>	<u>27,844</u>	<u>--</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,344)</u>	<u>505</u>	<u>1,849</u>
Net change in fund balances	(1,344)	505	1,849
Fund Balance - beginning	<u>69,596</u>	<u>69,596</u>	<u>--</u>
Fund Balance - ending	<u>\$ 68,252</u>	<u>\$ 70,101</u>	<u>\$ 1,849</u>

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

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

For the Year Ended December 31, 2017

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>			
Property taxes	\$ 18,300	\$ 19,680	\$ 1,380
Special assessments	10,930	16,228	5,298
Interest	--	249	249
Total Revenues	<u>29,230</u>	<u>36,157</u>	<u>6,927</u>
<b>EXPENDITURES</b>			
Bond principal	35,000	35,000	--
Interest	4,518	4,518	--
Agent fees	250	--	(250)
Total Expenditures	<u>39,768</u>	<u>39,518</u>	<u>(250)</u>
Excess (deficiency) of revenues over (under) expenditures	(10,538)	(3,361)	7,177
<b>OTHER FINANCING SOURCES (USES)</b>			
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	(5,138)	2,039	7,177
Fund Balance - beginning	<u>97,561</u>	<u>97,561</u>	<u>--</u>
Fund Balance - ending	<u>\$ 92,423</u>	<u>\$ 99,600</u>	<u>\$ 7,177</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, 2017

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>			
Interest	\$ --	\$ 42	\$ 42
Total Revenues	<u>--</u>	<u>42</u>	<u>42</u>
<b>EXPENDITURES</b>			
Bond principal	24,000	24,000	--
Interest	2,000	1,561	(439)
Total Expenditures	<u>26,000</u>	<u>25,561</u>	<u>(439)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(26,000)</u>	<u>(25,519)</u>	<u>481</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
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	--	481	481
Fund Balance - beginning	<u>3,656</u>	<u>3,656</u>	<u>--</u>
Fund Balance - ending	<u>\$ 3,656</u>	<u>\$ 4,137</u>	<u>\$ 481</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, 2017

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>			
Interest	\$ --	\$ 30	\$ (30)
Total Revenues	<u>--</u>	<u>30</u>	<u>(30)</u>
<b>EXPENDITURES</b>			
Bond principal	--	241,000	241,000
Interest	--	12,308	12,308
Total Expenditures	<u>--</u>	<u>253,308</u>	<u>253,308</u>
Excess (deficiency) of revenues over (under) expenditures	<u>--</u>	<u>(253,278)</u>	<u>253,278</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	--	250,980	(250,980)
Total other financing sources (uses)	<u>--</u>	<u>250,980</u>	<u>(250,980)</u>
Net change in fund balances	--	(2,298)	2,298
Fund Balance - beginning	<u>2,298</u>	<u>2,298</u>	<u>--</u>
Fund Balance - ending	<u>\$ 2,298</u>	<u>\$ --</u>	<u>\$ 2,298</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, 2017

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>			
Bond proceeds	\$ --	\$ --	\$ --
Interest	--	2	(2)
Total Revenues	<u>--</u>	<u>2</u>	<u>(2)</u>
<b>EXPENDITURES</b>			
Bond principal	--	1,200,000	(1,200,000)
Interest	--	18,000	(18,000)
Total Expenditures	<u>--</u>	<u>1,218,000</u>	<u>(1,218,000)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>--</u>	<u>(1,217,998)</u>	<u>1,217,998</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	--	1,208,946	(1,208,946)
Total other financing sources (uses)	<u>--</u>	<u>1,208,946</u>	<u>(1,208,946)</u>
Net change in fund balances	--	(9,052)	1,217,998
Fund Balance - beginning	<u>9,052</u>	<u>9,052</u>	<u>--</u>
Fund Balance - ending	<u>\$ 9,052</u>	<u>\$ --</u>	<u>\$ 9,052</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, 2017

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>			
Miscellaneous	\$ --	\$ --	\$ --
Total Revenues	<u>--</u>	<u>--</u>	<u>--</u>
<b>EXPENDITURES</b>			
Contractual Services	--	1,037	1,037
Total Expenditures	<u>--</u>	<u>1,037</u>	<u>1,037</u>
Excess (deficiency) of revenues over (under) expenditures	--	(1,037)	(1,037)
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	--	--	--
Total other financing sources (uses)	<u>--</u>	<u>--</u>	<u>--</u>
Net change in fund balances	--	(1,037)	(1,037)
Fund Balance - beginning	<u>--</u>	<u>(4,106)</u>	<u>4,106</u>
Fund Balance - ending	<u>\$ --</u>	<u>\$ (5,143)</u>	<u>\$ 4,106</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, 2017

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>			
Property Taxes	\$ 3,060	\$ 3,139	\$ 79
Miscellaneous	3,060	2,166	(894)
Total Revenues	<u>6,120</u>	<u>5,305</u>	<u>(815)</u>
<b>EXPENDITURES</b>			
Contractual Services	4,800	5,375	575
Total Expenditures	<u>4,800</u>	<u>5,375</u>	<u>575</u>
Excess (deficiency) of revenues over (under) expenditures	1,320	(70)	(1,390)
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	--	--	--
Total other financing sources (uses)	<u>--</u>	<u>--</u>	<u>--</u>
Net change in fund balances	1,320	(70)	(1,390)
Fund Balance - beginning	<u>--</u>	<u>--</u>	<u>--</u>
Fund Balance - ending	<u>\$ 1,320</u>	<u>\$ (70)</u>	<u>\$ --</u>

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CITY OF SANDSTONE, MINNESOTA  
SUPPLEMENTARY FINANCIAL INFORMATION  
December 31, 2017

CITY OF SANDSTONE, MINNESOTA  
 \$655,000 General Obligation Refunding Bonds, Series 2009A  
**STATEMENT OF BOND AND INTEREST MATURITIES**  
 December 31, 2017

Table 1

<u>Maturity</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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>\$ 315,000.00</u>	<u>\$ 45,697.50</u>	<u>\$ 360,697.50</u>

CITY OF SANDSTONE, MINNESOTA  
 \$430,000 General Obligation Improvement Bonds, Series 2009B  
**STATEMENT OF BOND AND INTEREST MATURITIES**  
 December 31, 2017

Table 2

<u>Maturity</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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>\$ 75,000.00</u>	<u>\$ 3,656.25</u>	<u>\$ 78,656.25</u>

CITY OF SANDSTONE, MINNESOTA  
 \$405,000 General Obligation Improvement & Refunding Bond, Series 2012A  
**STATEMENT OF BOND AND INTEREST MATURITIES**  
 December 31, 2017

Table 3

<u>Maturity</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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>\$ 210,000.00</u>	<u>\$ 14,010.00</u>	<u>\$ 224,010.00</u>

CITY OF SANDSTONE, MINNESOTA  
 \$401,500 General Obligation Water Revenue Note  
**STATEMENT OF BOND AND INTEREST MATURITIES**  
 December 31, 2017

Table 4

<u>Maturity</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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>\$ 50,000.00</u>	<u>\$ 1,582.50</u>	<u>\$ 51,582.50</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, 2017

<u>Maturity</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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>\$ 3,225,000.00</u>	<u>\$ 687,991.25</u>	<u>\$ 3,912,991.25</u>

CITY OF SANDSTONE, MINNESOTA  
OTHER REPORTS  
December 31, 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, 2017, and the related notes to the financial statements, which collectively comprise the City of Sandstone, Minnesota's basic financial statements, and have issued our report thereon dated May 9, 2018.

### Internal Control over Financial Reporting

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

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

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



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## **Compliance and Other Matters**

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

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

### **Purpose of this Report**

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



Althoff & Nordquist, LLC  
Pine City, Minnesota  
May 9, 2018

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