

City of Sandstone
Sandstone, Minnesota
MANAGEMENT LETTER
For the Fiscal Year Ended December 31, 2018

City of Sandstone
Sandstone, Minnesota
TABLE OF CONTENTS

	Page
Report on Matters Identified as a Result of the Audit of the Financial Statements	1
Material Weaknesses	3
Recommendations for Management	4
Required Communications	6
Financial Analysis	7

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REPORT ON MATTERS IDENTIFIED AS A RESULT OF THE AUDIT OF THE FINANCIAL STATEMENTS

June 14, 2019

Honorable Mayor and Members
of the City Council
City of Sandstone
Sandstone, Minnesota

In planning and performing our audit of the financial statements of the City of Sandstone, Sandstone, Minnesota, as of and for the year ended December 31, 2018, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified.

However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

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 City's financial statements will not be prevented, or detected and corrected, on a timely basis. We did not identify any deficiencies that we consider to be material weaknesses.



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A significant deficiency is a deficiency, or 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.

The accompanying memorandum includes financial analysis and recommendations for improvement of accounting procedures and internal control measures that came to our attention as a result of our audit of the financial statements of the City for the year ended December 31, 2018. The matters discussed herein were considered by us during our audit and they do not modify the opinion expressed in our Independent Auditor's Report dated June 14, 2019, on such statements.

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

Althoff & Nordquist LLC
Mora, Minnesota
June 14, 2019

City of Sandstone
Sandstone, Minnesota
SIGNIFICANT DEFICIENCIES
December 31, 2018

LACK OF SEGREGATION OF ACCOUNTING DUTIES

During the year ended December 31, 2018, the City did not have adequate segregation of accounting duties due to a limited number of office employees.

Management and the City council are aware of this condition and have taken certain steps to compensate for the lack of segregation, but due to the small staff needed to handle all of the accounting duties, the costs of obtaining desirable segregation of accounting duties can often exceed benefits which could be derived. However, management and City council must remain aware of this situation and should continually monitor the accounting system, including changes that occur.

PREPARATION OF FINANCIAL STATEMENTS

As a function of the audit process, auditors are required to gain an understanding of the City's internal control, including the financial reporting process.

The City does not have an internal control system designed to provide for the preparation of the financial statements being audited. As auditors we were requested to draft the financial statements and accompanying notes to the financial statements. This circumstance is not unusual in a city of your size.

Even though all management decisions related to financial reporting are made by the City's management and approval of the financial statements lies with management, it is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

City of Sandstone
Sandstone, Minnesota
REQUIRED COMMUNICATIONS
December 31, 2018

Honorable Mayor and Members
Of the City Council
City of Sandstone
Sandstone, Minnesota

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Sandstone, Minnesota for the year then ended December 31, 2018. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 14, 2019. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2018. We noted no transactions entered into during the year for which there is a lack of authoritative guidance or consensus. All significant transactions that have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The disclosures in the financial statements are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are immaterial, and communicate them to the appropriate level of management.

City of Sandstone
Sandstone, Minnesota
REQUIRED COMMUNICATIONS
December 31, 2018

Management has corrected all such misstatements detected as a result of audit procedures and corrections by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We requested certain representations from management that are included in the management representation letter dated June 14, 2019.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to (RSI), which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquires of management regarding the methods of preparing the information and comparing the information for consistency with management's response to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

City of Sandstone
Sandstone, Minnesota
REQUIRED COMMUNICATIONS
December 31, 2018

We were engaged to report on the combining statements, individual fund statements, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Restriction of Use

This information is intended solely for the information and use of the City Council and management of the City of Sandstone, Sandstone, Minnesota and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,



Althoff and Nordquist, LLC
Pine City, Minnesota

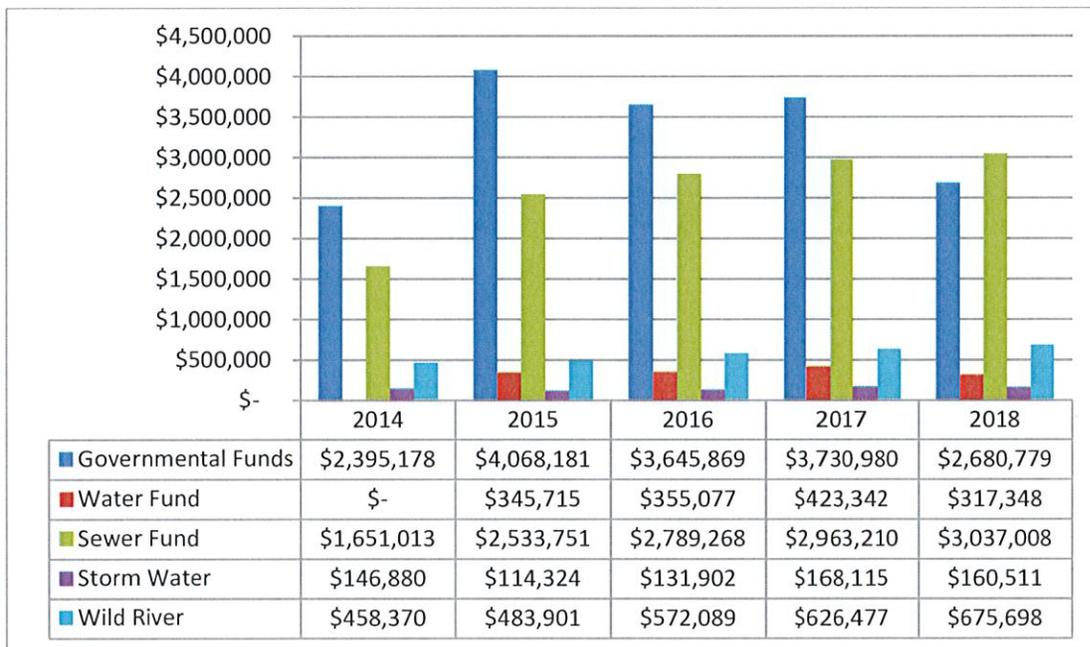
City of Sandstone
 Sandstone, Minnesota
 FINANCIAL ANALYSIS
 December 31, 2018

The following pages provide graphic representation of select data pertaining to the financial position and operations of the City for the past five years. Our analysis of each graph is presented to provide a basis for discussion of past performances and how implementing certain changes may enhance future performance. We suggest you view each graph and document if our analysis is consistent with yours. A subsequent discussion of this information should be useful for planning purposes.

UNRESTRICTED CASH AND INVESTMENT BALANCES

The graph below presents the unrestricted cash and investment balances of the governmental funds, and each proprietary fund for the past five years. Cash and investments decreased \$1,050,201, or 28.15% in the governmental funds, and cash increased \$9,421, or 0.23% in the proprietary funds taken as a whole.

Cash and Investment Balances

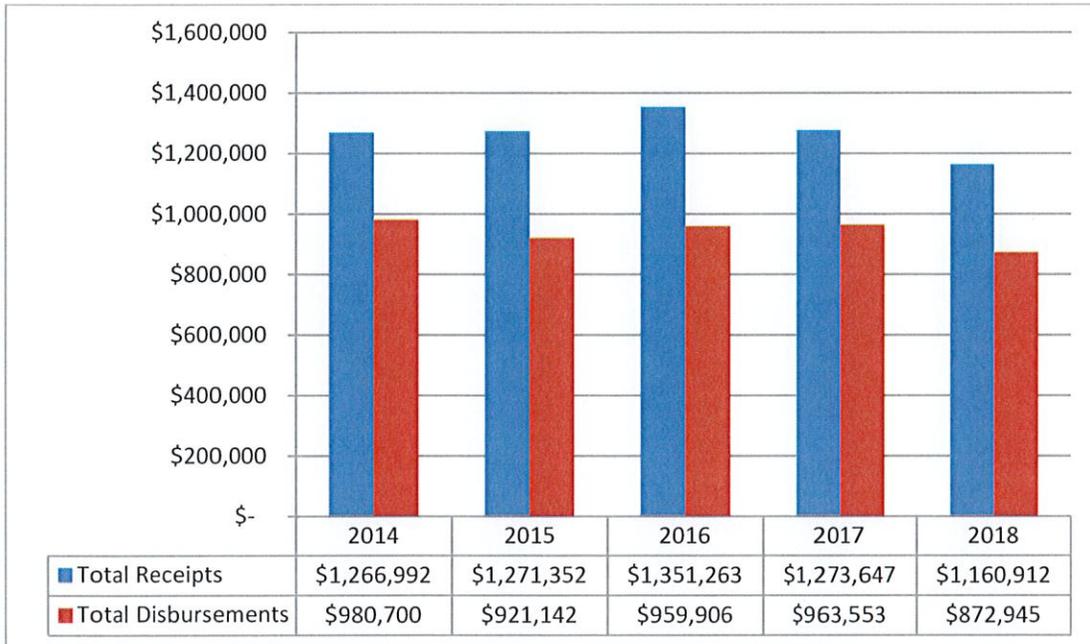


City of Sandstone
Sandstone, Minnesota
FINANCIAL ANALYSIS
December 31, 2018

GENERAL FUND – RECEIPTS AND DISBURSEMENTS

As illustrated in the following graph, the general fund receipts and disbursements have fluctuated slightly over the past five years. Revenues have exceeded disbursements every year for the past 5 years. Receipts decreased 8.85%, or \$112,735 from 2017 to 2018. This decrease was largely due to a decrease in property taxes and licenses and permits the City received. Disbursements decreased 9.40%, or \$90,608 from 2017 to 2018. This decrease is due to the decrease in public works disbursements.

General Fund
Receipts and Disbursements



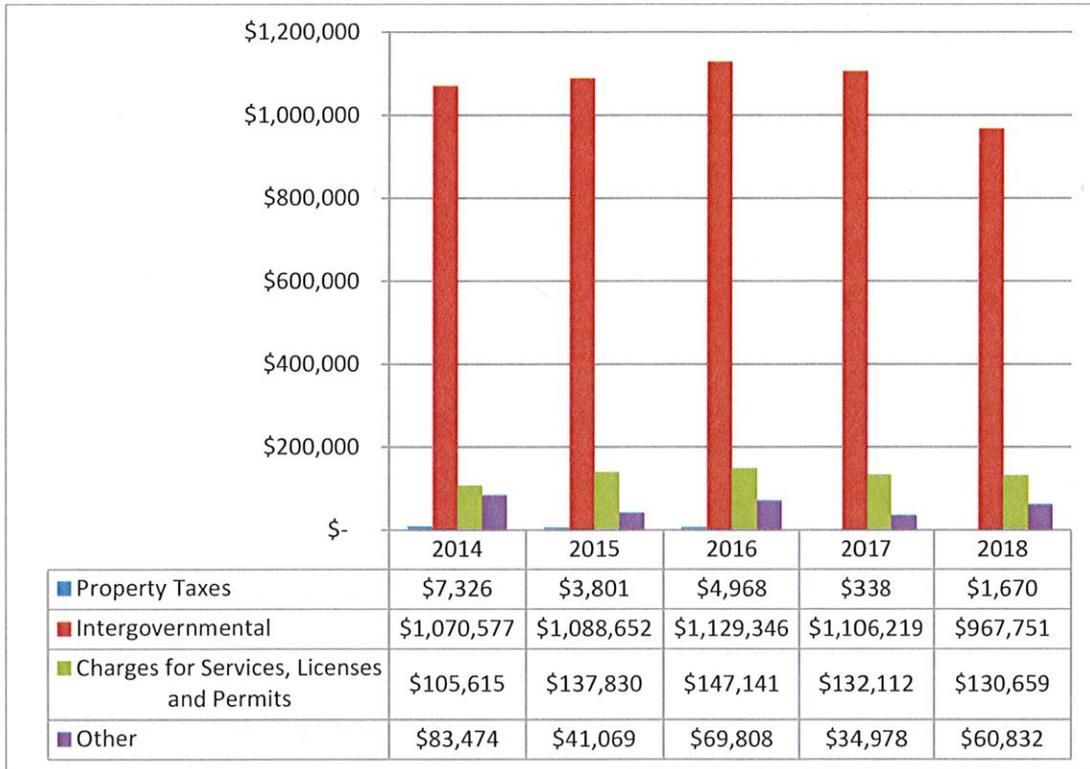
The graphs on the following page outline the sources of the general fund’s receipts and allocation of disbursements. The graph showing receipts for the past five years illustrates the reliance on intergovernmental receipts with significant revenues from the other revenues sources. In 2018, 83.36% of the City’s receipts were intergovernmental receipts. Other revenues include property tax receipts, charges for services, interest revenues, and miscellaneous.

City of Sandstone
Sandstone, Minnesota
FINANCIAL ANALYSIS
December 31, 2018

GENERAL FUND – RECEIPTS AND DISBURSEMENTS (Continued)

We recommend the City continue to monitor receipts and disbursements monthly through the financial reporting process and annually through the budget process to ensure continued stable growth of the general fund for future operations. We recommend the City follow a policy targeting a desired cash balance.

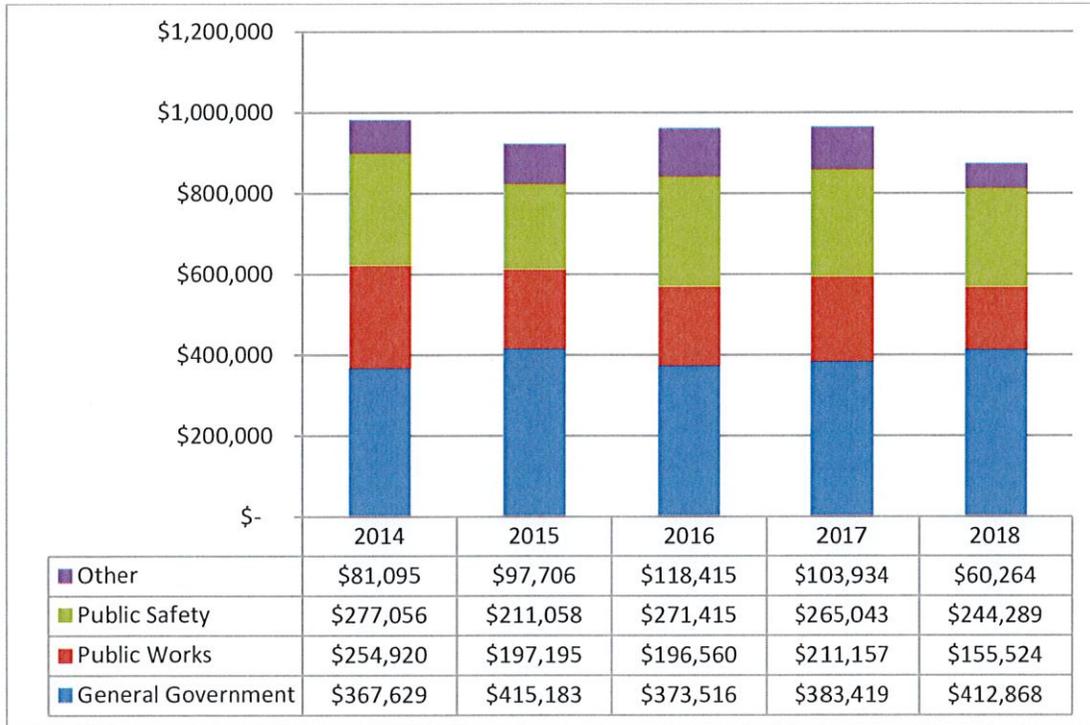
General Fund Receipts



City of Sandstone
 Sandstone, Minnesota
 FINANCIAL ANALYSIS
 December 31, 2018

GENERAL FUND – RECEIPTS AND DISBURSEMENTS (Continued)

General Fund Disbursements

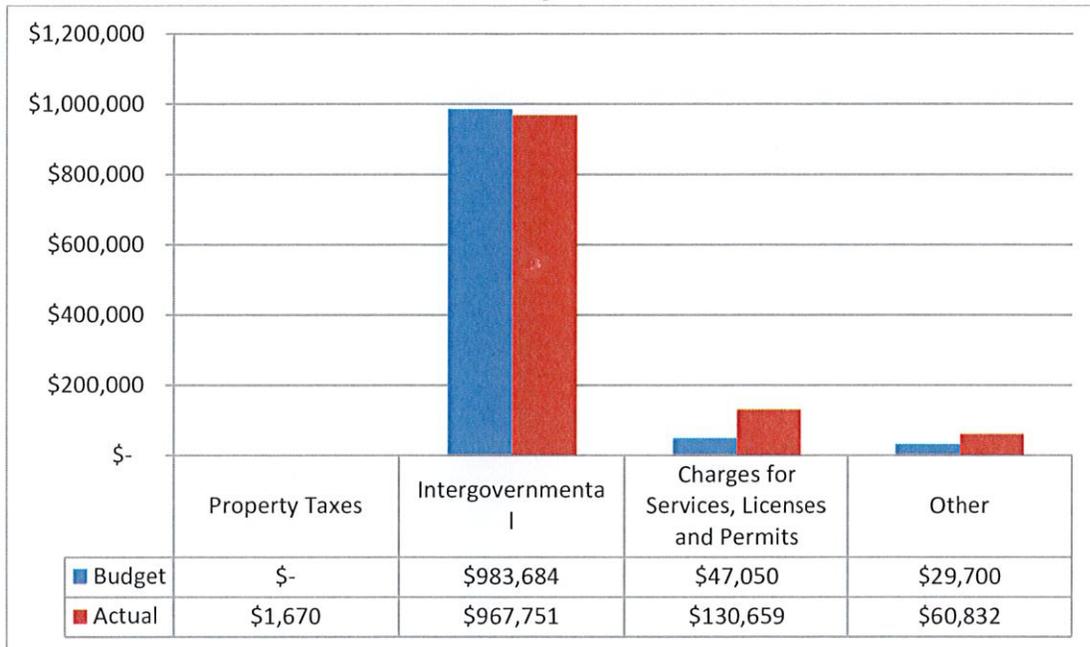


City of Sandstone
Sandstone, Minnesota
FINANCIAL ANALYSIS
December 31, 2018

GENERAL FUND – RECEIPTS BUDGET AND ACTUAL

The following graph below outlines the budget and actual totals for the general fund’s receipts.

2018 General Fund Receipts
Budget and Actual



Overall, the City developed an accurate guideline in the budget. The total receipt variance between budget and actual was 9.48%. Property taxes were more than budgeted, while all other areas of sources were greater than budgeted amounts.

The City should continue the budget strategies developed to monitor operations.

City of Sandstone
Sandstone, Minnesota
FINANCIAL ANALYSIS
December 31, 2018

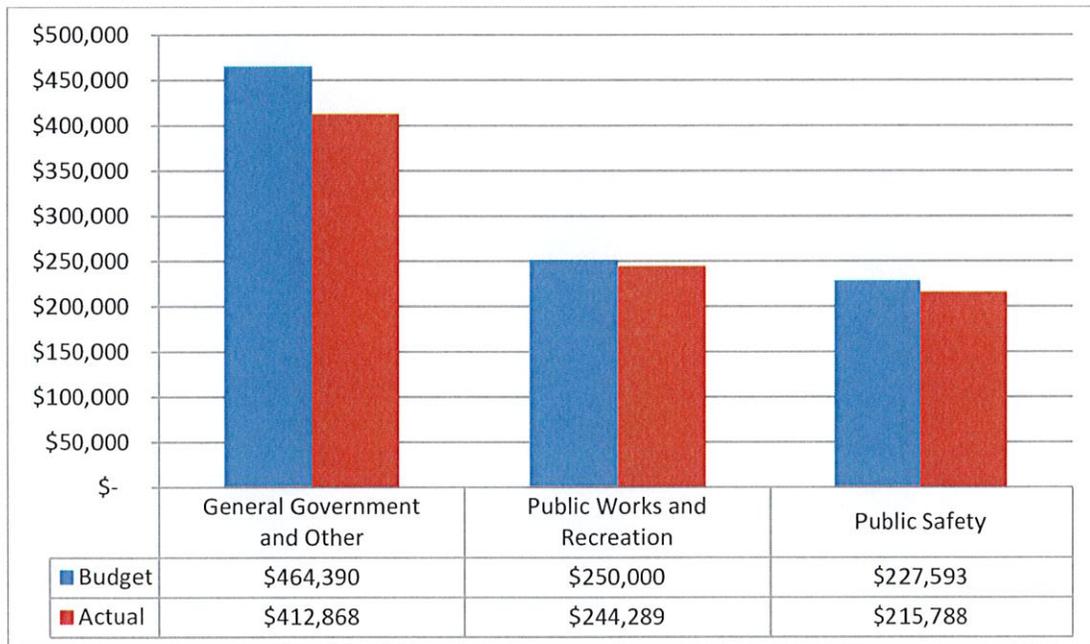
GENERAL FUND – DISBURSEMENTS BUDGET AND ACTUAL

Below is a summary of the budget and actual totals for the general fund’s disbursements.

Disbursements for the general fund resulted in under spending by \$68,765 or a variance of 7.30%. This variance is primarily due to general government expenditures. Public works expenditures were \$5,711 under budget. Public safety expenditures were \$13,775 under budget, and general government expenditures were \$51,522 under budget.

Again, the City should continue the budgeting tactics used in the past. In the end, the City managed an \$88,959 decrease in the general fund after accounting for transfers.

2018 General Fund Disbursements
Budget and Actual



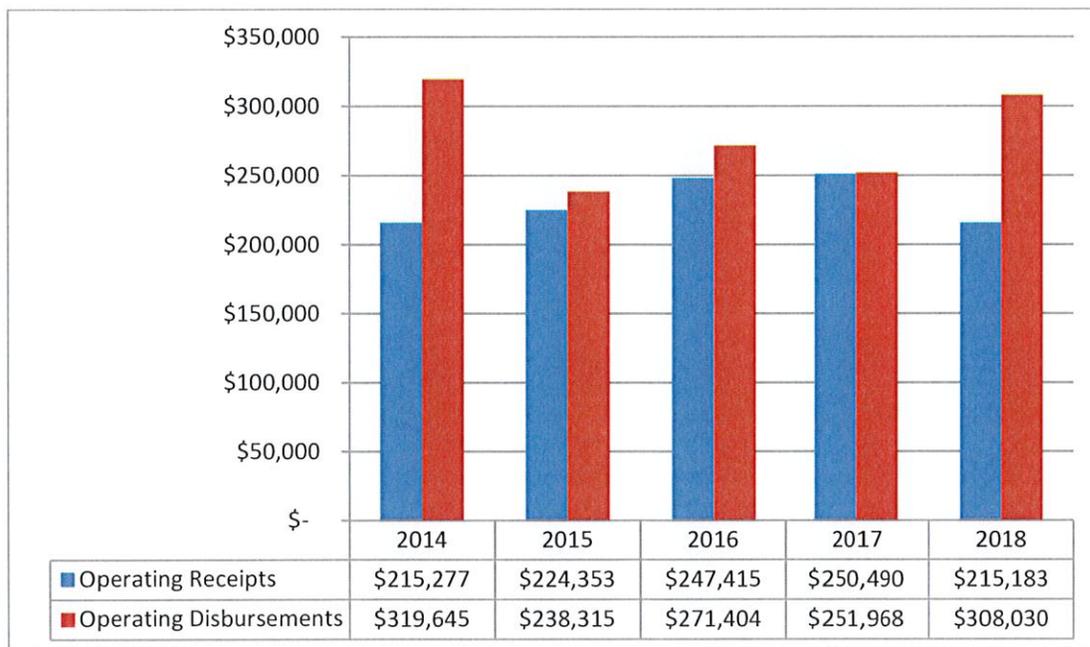
City of Sandstone
Sandstone, Minnesota
FINANCIAL ANALYSIS
December 31, 2018

WATER FUND

Operating expenditures have continually exceeded cash receipts, except for 2013, when receipts exceeded expenditures by \$4,296. Water receipts decreased \$35,307 from 2017 to 2018 due to decreased consumption by customers. Water disbursements increased \$56,062 from 2017 to 2018.

It is important to note that the above notes and the below graphical representation account only for operating revenues and expenditures, and not non-operating revenues and expenses. In 2018 the water fund non-operating activity resulted in \$21,654 in net expenditures.

Water Fund
Receipts and Disbursements



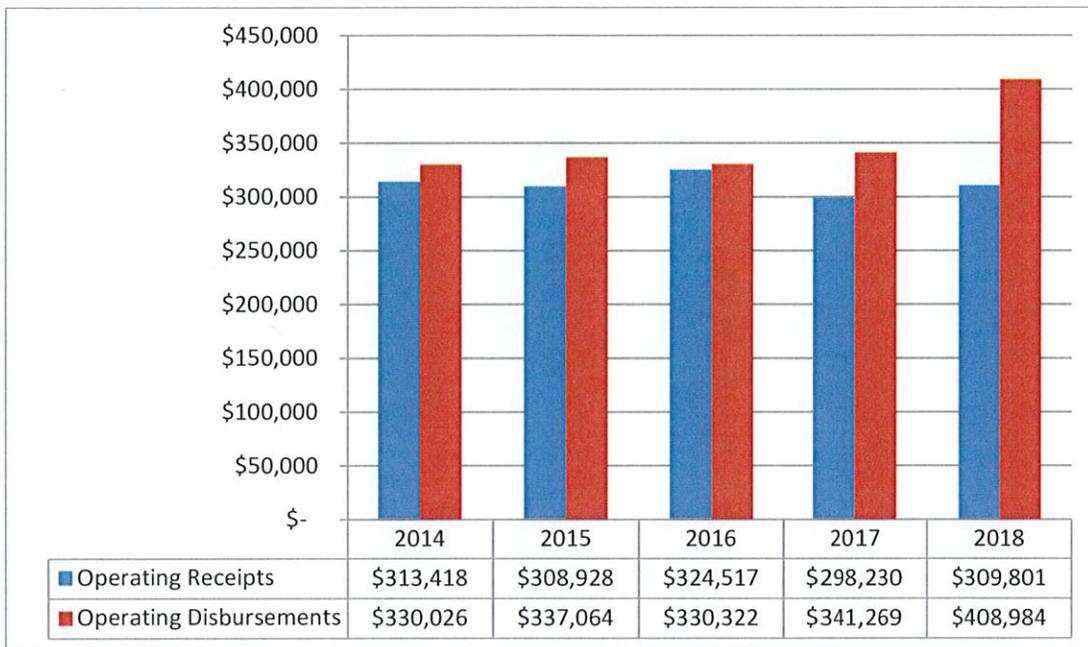
City of Sandstone
Sandstone, Minnesota
FINANCIAL ANALYSIS
December 31, 2018

SEWER FUND

Sewer receipts increased \$11,571 from 2017 to 2018 due to increased usage by customers. Sewer disbursements increased \$67,715 from 2017 to 2018.

It is important to note that the above notes and the below graphical representation account only for operating revenues and expenditures, and not non-operating revenues and expenses. In 2018 the sewer fund non-operating activity resulting in \$31,588 in net revenues.

Sewer Fund
Receipts and Disbursements



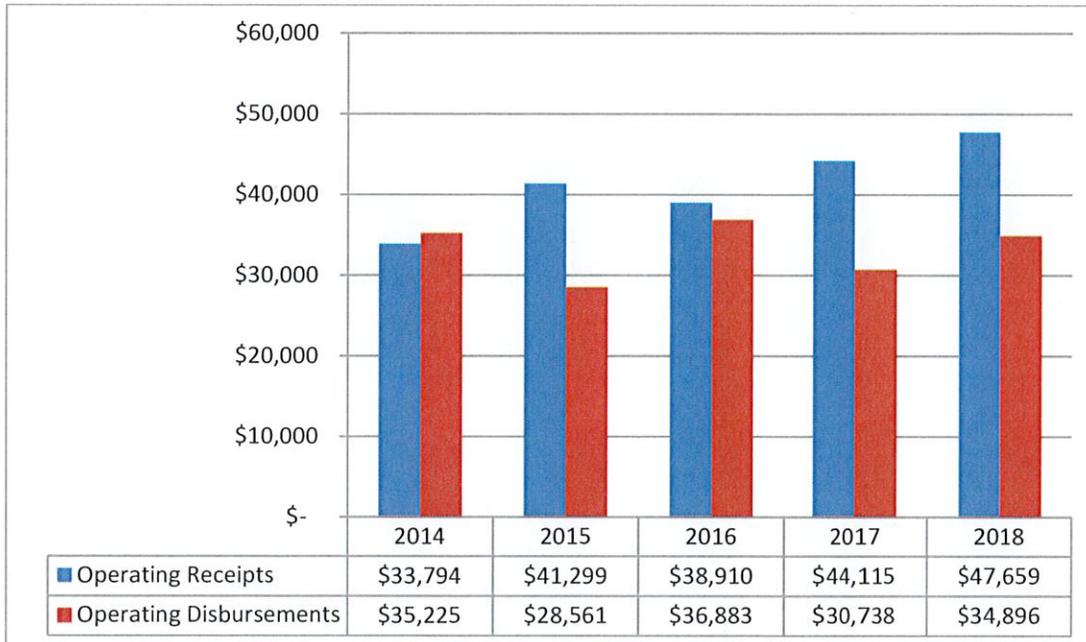
City of Sandstone
 Sandstone, Minnesota
 FINANCIAL ANALYSIS
 December 31, 2018

STORM WATER FUND

Cash receipts have continually exceeded operating disbursements except for 2014. Storm water receipts increased \$3,544 from 2017 to 2018 due to increased consumption by customers. Storm water disbursements increased \$4,161 from 2017 to 2018.

It is important to note that the above notes and the below graphical representation account only for operating revenues and expenditures, and not non-operating revenues and expenses. In 2018 the storm water fund non-operating activity resulting in \$4,299 in net expenditures.

Storm Water Fund
 Receipts and Disbursements



City of Sandstone
Sandstone, Minnesota
FINANCIAL ANALYSIS
December 31, 2018

WILD RIVER APARTMENT FUND

Cash receipts have exceeded operating disbursements for the past five years. Wild River receipts decreased \$32,926 from 2017 to 2018 which indicates a decrease in revenues. Wild River disbursements decreased \$29,686 from 2017 to 2018.

It is important to note that the above notes and the below graphical representation account only for operating revenues and expenditures, and not the non-operating revenues and expenses. In 2018 the Wild River fund non-operating activity resulted in \$99,141 in net expenditures.

Wild River Apartment Fund
Receipts and Disbursements

