

CITY OF CAMBRIDGE, MINNESOTA

AUDIT MANAGEMENT LETTER

December 31, 2017

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To the Honorable Mayor and
Members of the City Council
City of Cambridge, Minnesota

We have completed the 2017 audit of the financial statements of the City of Cambridge, Minnesota and have issued our report thereon. Our Independent Auditor's Report is included in the City's Comprehensive Annual Financial Report.

This Audit Management Letter provides a summary of audit results along with comparisons and trend analysis of financial results.

Thank you for the opportunity to serve the City. We are available to discuss this report with you.

A handwritten signature in black ink that reads "Redpath and Company, Ltd." in a cursive script.

REDPATH AND COMPANY, LTD.
St. Paul, Minnesota

April 2, 2018

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REPORT SUMMARY

Several reports are issued in conjunction with the audit. A brief summary is as follows:

Report Name	Elements of Report	Overview
<i>Comprehensive Annual Financial Report (CAFR)</i>	<ul style="list-style-type: none">• Auditor's opinion• Management's Discussion and Analysis• Financial statements• Footnotes• Supplemental information• Statistical information	<ul style="list-style-type: none">• Unmodified ("clean") opinion on the Financial Statements• The 2016 CAFR was awarded GFOA's Certificate of Achievement for Excellence in Financial Reporting
<i>Report on Internal Control over Financial Reporting and on Compliance and Other Matters</i>	<i>Results of testing:</i> <ul style="list-style-type: none">• Internal controls over financial reporting• Compliance with laws, regulations, contracts and grants	<ul style="list-style-type: none">• No internal control findings• No findings of noncompliance
<i>State Legal Compliance Report</i>	<ul style="list-style-type: none">• Results of testing certain provisions of Minnesota Statutes	<ul style="list-style-type: none">• No findings of noncompliance

EXECUTIVE SUMMARY

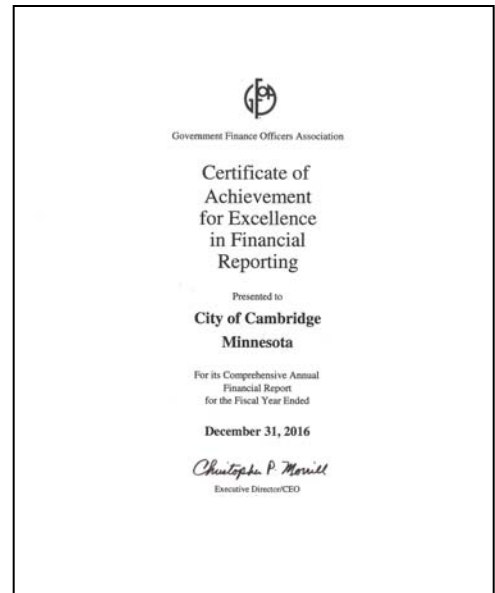
Several areas highlighted for your reference include the following:

Our opinion on the 2017 financial statements is unmodified (also referred to as a “clean opinion”).	Page 2
There are no findings related to internal control or compliance.	Page 2
The City received the Government Finance Officers Association (GFOA) “Certificate of Achievement for Excellence in Financial Reporting” for its 2016 Comprehensive Annual Financial Report.	Page 4
The current year property tax collection rate was 99.87% as compared to 98.88% for the prior year.	Page 6
The General Fund balance increased \$81,858 during 2017 to a balance of \$3,503,608 at December 31, 2017. This increase in fund balance was after additional transfers made to “prefund” debt of \$450,000. Fund balance available for cash flow purposes met the goal set by policy.	Page 10
The Liquor Fund operating activities generated \$506,600 in cash flows which allowed for transfers of \$435,000 to the General Fund and \$34,000 to the Park Capital Project Fund.	Page 24

CERTIFICATE OF ACHIEVEMENT FOR EXCELLENCE IN FINANCIAL REPORTING

The City of Cambridge, Minnesota was awarded the Certificate of Achievement for Excellence in Financial Reporting by the Government Finance Officers Association of the United States and Canada (GFOA) for the 2016 Comprehensive Annual Financial Report (CAFR).

The CAFR program was established to encourage local governments to go beyond minimum requirements of generally accepted accounting principles to prepare financial reports and evidence the spirit of transparency and full disclosure.



The CAFR is graded in sixteen different categories. The program is a review of all facets of financial reporting for disclosure, clarity and consistency with National Reporting Standards. The CAFR must receive a unanimous approval of the reviewers. This was the fifteen (15th) year the City participated in this program and it continues to be significant achievement.

Summary of Financial Activity

The schedule below presents a condensed financial summary of all funds:

	Fund	Revenues and Other Sources	Expenditures and Other Uses	Interfund Transfers (Net)	Increase (Decrease) in Fund Balance/ Net Position	Fund Balance/ Net Position 12/31/17
1	General	\$6,625,903	\$5,365,610	(\$1,178,435)	\$81,858	\$3,503,608
	Special Revenue:					
2	Senior Watch	19	679	-	(660)	2,508
3	Forfeited Proceeds	5,283	2,639	-	2,644	3,190
4	Airport Operating	80,587	60,790	(15,000)	4,797	52,217
5	Police Administration Fines	11,125	10,000	-	1,125	13,536
6	Cambridge Economic Development Revolving Loan	811	24,036	-	(23,225)	96,953
7	Downtown Revolving Loan	1,705	13,523	40,000	28,182	149,700
8	Cambridge-Isanti Bike/Walk Trail	5,431	8,687	6,660	3,404	12,145
9	Housing Programs	479,793	471,215	-	8,578	439,818
10	Deed Grant	867,547	867,547	-	-	-
11	Debt Service	1,530,458	1,915,936	597,000	211,522	2,550,842
	Capital Projects:					
12	Water Treatment Facility	216,149	-	(100,000)	116,149	340,718
13	Water Area and Connection	51,874	-	-	51,874	685,869
14	Sewer Area Charge	846	-	-	846	124,325
15	Park Improvement Capital	1,354	158,089	214,000	57,265	250,604
16	Downtown Parking Construction	34	-	-	34	5,000
17	Police Capital	312,266	46,887	70,000	335,379	410,755
18	Public Works Capital Project	1,054	9,298	140,000	131,756	238,615
19	City Hall Capital Project	736	6,295	67,000	61,441	146,420
20	Fire Department Capital	66,491	1,292	54,785	119,984	305,870
21	Park Dedication Capital Project	115	-	-	115	16,879
22	Cambridge-Isanti Bike/Walk Trail	7,921	-	8,340	16,261	68,684
23	Pavement Management	56,297	111,236	267,000	212,061	427,620
24	Airport Improvement	131,135	123,101	15,000	23,034	22,000
25	TIF 6.9 - RTC Redevelopment	50,092	-	-	50,092	(1,078,129)
26	RTC Property Development	95	-	(40,000)	(39,905)	1,104,292
27	2018 Street Improvement project	429,364	181,551	-	247,813	828,496
28	Library Fund	4	-	-	4	495
29	Refrigerated Ice Sheets	-	80,978	-	(80,978)	-
	Enterprise Funds:					
30	Water	1,870,614	1,660,467	87,500	297,647	16,647,600
31	Wastewater	2,832,471	2,808,583	(37,500)	(13,612)	23,763,093
32	Storm Sewer	341,118	437,085	-	(95,967)	8,595,809
33	Municipal Liquor Store	5,540,424	5,043,344	(469,000)	28,080	1,772,327
34	Housing	273,703	228,240	-	45,463	1,119,315
	Internal Service Funds:					
35	Property Insurance	35,636	60,300	-	(24,664)	156,390
36	Pension Benefits	405,772	758,650	-	(352,878)	(4,457,335)
	Economic Development Authority:					
37	EDA Land Acquisition Capital Project	1,414	-	-	1,414	222,222
38	EDA Operating	226,237	333,891	272,650	164,996	532,930
	Total	\$22,461,878	\$20,789,949	\$0	\$1,671,929	\$59,075,381

Property Taxes

A summary of property tax levies and collections is as follows:

Fiscal Year Ended December 31,	Taxes Levied For The Fiscal Year	Collected Within The Fiscal Year of the Levy		Collections in Subsequent Years(1)	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
2008	\$4,272,798	\$4,013,160	93.92%	\$259,638	\$4,272,798	100.00%
2009	4,276,382	4,102,633	95.94%	148,052	4,250,685	99.40%
2010	4,325,933	4,263,695	98.56%	62,238	4,325,933	100.00%
2011	4,390,731	4,142,820	94.35%	110,340	4,253,160	96.87%
2012	4,680,361	4,518,032	96.53%	67,266	4,585,298	97.97%
2013	4,844,174	4,795,494	99.00%	(23,910)	4,771,584	98.50%
2014	4,844,174	4,793,705	98.96%	31,298	4,825,003	99.60%
2015	4,907,148	4,837,402	98.58%	38,385	4,875,787	99.36%
2016	4,980,755	4,925,010	98.88%	8,393	4,933,403	99.05%
2017	5,095,439	5,088,602	99.87%	-	5,088,602	99.87%

(1) The negative collections in subsequent years for 2013 was the result of tax abatements.

Special Assessments

The City has experienced the following special assessment collection rates:

<u>Year</u>	<u>Current Year P & I</u>	<u>Collection of Current Year Levy</u>	<u>Collection of Prior Year Levy</u>	<u>Delinquent Receivable at 12/31</u>	<u>Collection Rate</u>
2012	\$700,790	\$546,680	\$37,601	\$37,601	78.0%
2013	586,732	571,372	4,362	48,599	97.4%
2014	491,568	486,055	4,362	40,710	98.9%
2015	494,906	481,600	307	25,744	97.3%
2016	529,513	518,687	11,359	23,265	98.0%
2017	484,754	473,701	17,187	12,301	97.7%

As shown above, the delinquent assessments outstanding at December 31, 2017 are not material and the collection rate continues to be very good.

The lower collection rates in 2012 related to one assessment roll (Parkwood). These assessments will be collected through the sale of tax forfeited properties.

Long-Term Debt

A schedule of 2017 long-term debt activity is as follows:

	1/1/17 Balance	Additions	Reductions	12/31/17 Balance	Principal Due in 2018
Governmental activities:					
Bonds payable:					
G.O. improvement bonds	\$8,080,851	\$ -	\$1,592,894	\$6,487,957	\$1,138,591
Issuance premium	301,798	-	46,777	255,021	-
Total bonds payable	<u>8,382,649</u>	<u>0</u>	<u>1,639,671</u>	<u>6,742,978</u>	<u>1,138,591</u>
Compensated absences	<u>322,010</u>	<u>179,468</u>	<u>178,192</u>	<u>323,286</u>	<u>100,000</u>
Total government activity long-term debt	<u><u>\$8,704,659</u></u>	<u><u>\$179,468</u></u>	<u><u>\$1,817,863</u></u>	<u><u>\$7,066,264</u></u>	<u><u>\$1,238,591</u></u>
Business-type activities:					
Bonds payable:					
G.O. revenue bonds	\$21,272,154	\$ -	\$2,150,105	\$19,122,049	\$1,880,404
Issuance premium	507,344	-	64,921	\$442,423	-
Total bonds payable	<u>21,779,498</u>	<u>0</u>	<u>2,215,026</u>	<u>19,564,472</u>	<u>1,880,404</u>
Compensated absences	<u>210,752</u>	<u>69,017</u>	<u>121,609</u>	<u>158,160</u>	<u>158,160</u>
Total business-type activity long-term debt	<u><u>\$21,990,250</u></u>	<u><u>\$69,017</u></u>	<u><u>\$2,336,635</u></u>	<u><u>\$19,722,632</u></u>	<u><u>\$2,038,564</u></u>

Pension Liability

In 2015, the City implemented GASB Statement No. 68, which required the reporting of the City of Cambridge’s proportionate share of the PERA Net Pension Liability (NPL). During 2017, the City’s share of PERA’s NPL decreased. The schedule below presents the components of the change in NPL. During 2017, the City paid it’s required contribution to the Plan. The required contribution is a percentage of eligible wages.

	General Employees Plan	Police and Fire Plan	Total
Change in net pension liability:			
Change in actuarial assumptions ⁽¹⁾	(\$273,000)	(\$2,204,000)	(\$2,477,000)
Change in proportion ⁽²⁾	158,000	0	158,000
Experience difference ⁽³⁾	90,000	36,000	126,000
Earnings difference ⁽⁴⁾	(462,000)	(493,000)	(955,000)
Cambridge's share of 2017 pension expense	165,000	(200,000)	(35,000)
Contributions to the plan by City of Cambridge	(206,000)	(191,000)	(397,000)
Contributions to the plan by State of Minnesota	-	(10,000)	(10,000)
Increase in net pension liability	<u>(528,000)</u>	<u>(3,062,000)</u>	<u>(3,590,000)</u>
Beginning net pension liability	<u>3,247,000</u>	<u>4,615,000</u>	<u>7,862,000</u>
Ending net pension liability	<u><u>\$2,719,000</u></u>	<u><u>\$1,553,000</u></u>	<u><u>\$4,272,000</u></u>

1. The assumed investment return was changed from 5.6% to 7.5% for Police and Fire Plan.
2. The City's proportionate share of the total NPL was unchanged for the Police and Fire Plan.
3. This is the change between expected and actual experience in the measurement of the pension liability.
4. This is the difference between projected and actual earnings on plan investments.

The General Fund of the City is maintained to account for operating and capital outlay expenditures common to all cities. These basic services include (but are not limited to) public safety, public works, public welfare and general government.

The fund balance of the General Fund increased by \$81,858 in 2017 as follows:

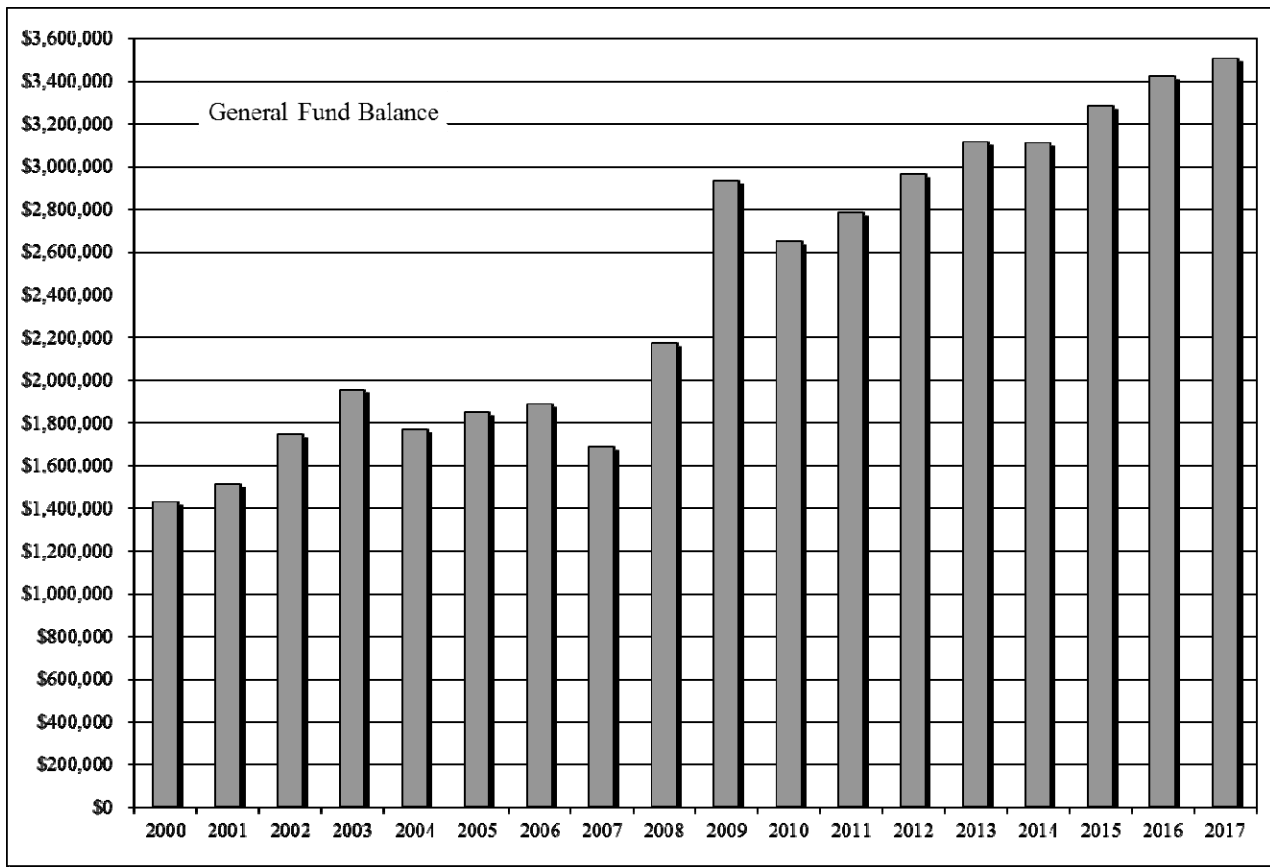
General Fund		
	<u>2017</u>	<u>2016</u>
Revenues and transfers in:		
General property taxes	\$4,541,980	\$4,265,730
Intergovernmental	1,099,628	1,047,510
All other	984,295	674,853
Transfers from other funds	487,350	516,702
Total revenues and transfers in	<u>7,113,253</u>	<u>6,504,795</u>
Expenditures and transfers out:		
General government	1,358,597	1,544,166
Public safety	2,290,435	2,170,743
Public works	1,716,578	1,631,655
Subtotal (general operations)	<u>5,365,610</u>	<u>5,346,564</u>
Transfers to other funds	1,665,785	1,020,678
Total expenditures and transfers out	<u>7,031,395</u>	<u>6,367,242</u>
Net increase in fund balance	<u><u>\$81,858</u></u>	<u><u>\$137,553</u></u>

City of Cambridge, Minnesota

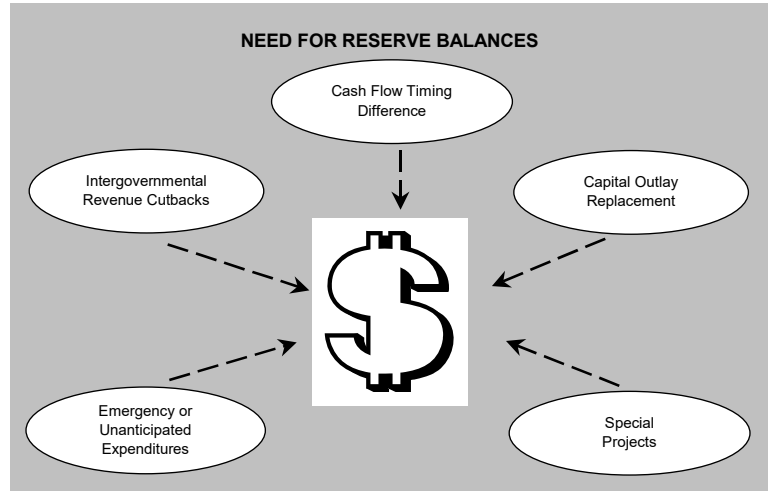
Audit Management Letter

General Fund

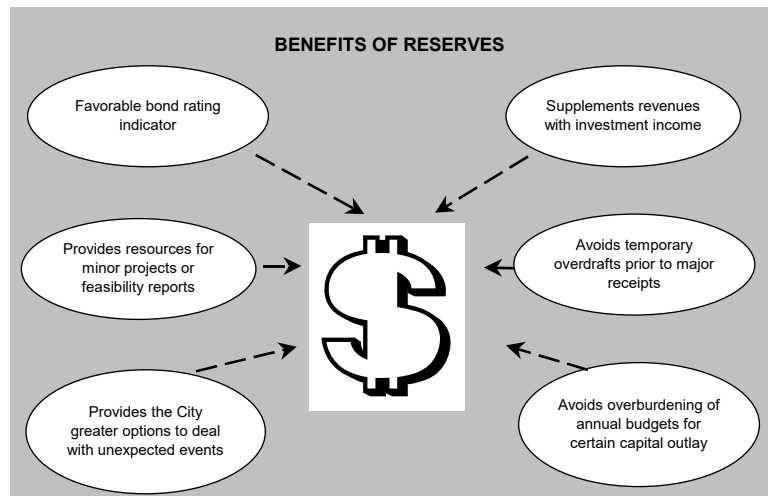
The City's December 31, 2017 fund balance totaled \$3,503,608. The City's General Fund balance has been as follows for the past several years:



The fund balance of a city's General Fund is a key financial indicator. Management controls over the level of fund balance is based on a city's philosophy and approach to determining optimum balances. Several areas to consider are illustrated at the right:



The City has adopted a fund balance policy. The policy addresses three areas: 1) compensated absences; 2) cash flow; and 3) emergencies/contingencies.



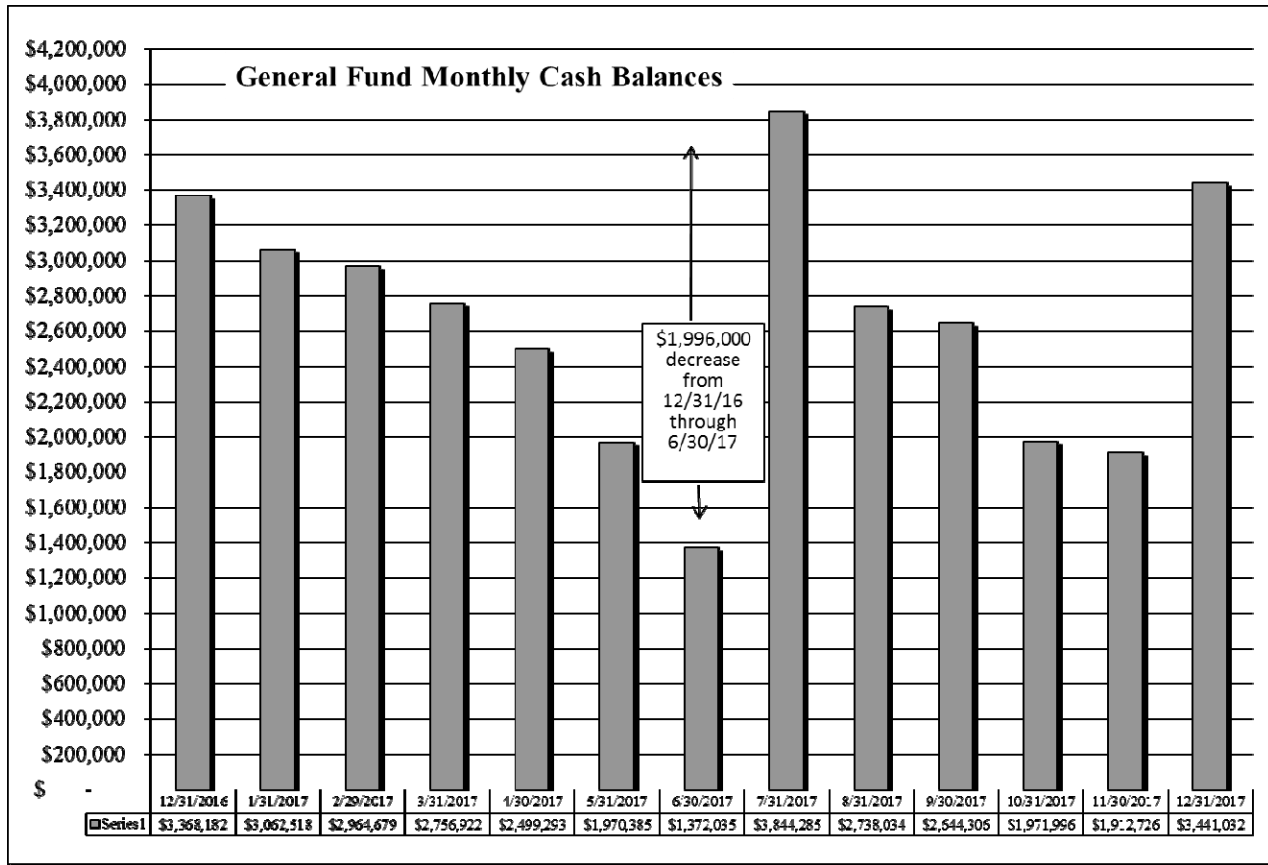
Cash Flow Reserve

Property taxes and related state aids account for over 85% of the General Fund revenue. This revenue is not received by the City until July and December of each year. This requires a cash flow reserve at the start of the year to finance operations prior to the receipt of taxes and state aids. City policy requires that the cash flow reserve consist of between 30% and 50% of the ensuing year’s tax levy and state aids and is computed as follows:

Cash Flow Designation	
2018 budgeted levy	\$4,518,430
2018 anticipated LGA	<u>802,352</u>
Total	<u><u>\$5,320,782</u></u>
Minimum cash flow reserve (30% of total)	<u><u>\$1,596,235</u></u>
Maximum cash flow reserve (50% of total)	<u><u>\$2,660,391</u></u>
Amount available for cash flow reserve (49% of total)	<u><u>\$2,568,546</u></u>

As shown above, the December 31, 2017 cash flow reserve is in the policy range.

The following graph of monthly General Fund cash balances illustrates the impact of receiving property taxes and state aids in the second half of the year:



Summary of Fund Balance

A summary of fund balance of the General Fund is as follows:

<u>Fund Balance Constraint</u>	<u>2017</u>	<u>2016</u>
Nonspendable - prepaid items	\$284,867	\$271,152
Committed - compensated absences	323,286	322,010
Unassigned:		
Cash Flow (30% to 50% of tax ley + LGA)	2,568,546	2,510,306
Contingency (5% of budgeted expenditures)	287,701	279,941
Other	<u>39,208</u>	<u>38,341</u>
Total	<u>\$3,503,608</u>	<u>\$3,421,750</u>

SPECIAL REVENUE FUNDS

Special Revenue Funds are a classification of funds used to account for specific revenue sources that are restricted to expenditures for specified purposes. The City maintained ten Special Revenue Funds as follows:

	Fund	Revenues and Other Sources	Expenditures and Other Uses	Interfund Transfers (Net)	Increase (Decrease) in Fund Balance	Fund Balance 12/31/17	Comments
	Special Revenue:						
1	Senior Watch	\$19	\$679	\$ -	(\$660)	\$2,508	
2	EDA Operating	226,237	333,891	272,650	164,996	532,930	Accounts for Mall Operations and certain tax abatements. The transfers in included \$200,000 from the General fund for tax abatements and \$75,000 from the General fund per the long-range plan.
3	Forfeited Proceeds	5,283	2,639	-	2,644	3,190	
4	Airport Operating	80,587	60,790	(15,000)	4,797	52,217	
5	Police Administration Fines	11,125	10,000	-	1,125	13,536	
6	Cambridge Economic Development Loan	811	24,036	-	(23,225)	96,953	
7	Downtown Revolving Loan	1,705	13,523	40,000	28,182	149,700	Loans outstanding total \$66,000 at 12/31/17
8	Cambridge-Isanti Trail Operations	5,431	8,687	6,660	3,404	12,145	
9	Housing Programs	479,793	471,215	-	8,578	439,818	Accounts for Section 8 voucher program
10	Deed Grant	867,547	867,547	-	-	-	2017 activity includes acquisition of land that will be transferred to the State of MN
	Total	\$1,678,538	\$1,793,007	\$304,310	\$189,841	\$1,302,997	

DEBT SERVICE FUNDS

Debt Service Funds are a type of governmental fund used to account for the accumulation of resources for the payment of interest and principal on debt (other than Enterprise Fund debt). The diverse nature of the types of debt included in the same fund type requires careful analysis to determine the adequacy of the fund balance and projected fund balance.

Current governmental reporting standards do not provide for the matching of long-term debt with its related financing sources. Although this information can be found in the City’s Comprehensive Annual Financial Report, it is located in several separate sections. The following schedule extracts information from these sections of the 2017 Comprehensive Annual Financial Report to provide an overview analysis of long-term debt and its related funding.

The reader is cautioned that 1) future interest revenue from assessments and investments and, 2) future interest expense on bonded debt is not included in the following schedule.

	Assets Pledged for Debt Repayment			Outstanding Bond Principal	Scheduled Property Taxes	Final Maturity Date
	Fund Balance	Special Assessments to be Collected	Total			
Governmental Bonds:						
Improvement Bonds of 2010A - 314	\$164,611	\$45,700	\$210,311	\$115,800	\$ -	2/1/2019
Bonds of 2012 (Improvement portion) - 393	405,073	327,466	732,539	1,335,000	} 2,391,000	2/1/2023
Bonds of 2012 (City Hall refinance portion) - 340	914,186	-	914,186	1,600,000		2/1/2021
Bonds of 2014 (Improvement portion) - 372	318,586	545,896	864,482	835,000	-	2/1/2025
Bonds of 2014 (2007 refinance portion) - 337	158,580	-	158,580	152,157	-	2/1/2025
Bonds of 2016 (2015 refinance portion) - 385	177,955	446,917	624,872	1,110,000	798,042	2/1/2026
Bonds of 2016 (Improvement portion) - 324	412,433	450,583	863,016	1,340,000	608,885	2/1/2027
Total	\$2,551,424	\$1,816,562	\$4,367,986	\$6,487,957	\$3,797,927	

CAPITAL PROJECT FUNDS

The fund balances (deficits) of the Capital Project Funds were as follows at December 31, 2017:

	Fund	Revenues and Other Sources	Expenditures and Other Uses	Interfund Transfers (Net)	Increase (Decrease) in Fund Balance	Fund Balance 12/31/17	Comments
Capital Projects:							
1	Water Treatment Facility	\$216,149	\$ -	(\$100,000)	\$116,149	\$340,718	\$100K was transferred to Water Fund to assist with debt service.
2	Water Area and Connection	51,874	-	-	51,874	685,869	
3	Sewer Area Charge	846	-	-	846	124,325	
4	Park Improvement	1,354	158,089	214,000	57,265	250,604	Received transfer from General fund (\$125K) for Lavender park land acquisition.
5	Downtown Parking Construction	34	-	-	34	5,000	
6	Police Capital	312,266	46,887	70,000	335,379	410,755	Revenue includes sale of land proceeds (\$298,000). Interfund transfers include \$70,000 from the General fund per the long-range plan.
7	Public Works Capital Project	1,054	9,298	140,000	131,756	238,615	Received transfer from General Fund (\$140K) per the long-range plan.
8	City Hall Capital Project	736	6,295	67,000	61,441	146,420	Received transfer from General fund (\$67K) per the long-range plan.
9	Fire Department Capital	66,491	1,292	54,785	119,984	305,870	Received transfer from General fund (\$54K) per the long-range plan.
10	EDA Land Acquisition Capital Project	1,414	-	-	1,414	222,222	This fund holds Land Held For Resale in the amount of \$581K (parcel near Fleet Farm).
11	Park Dedication Capital Project	115	-	-	115	16,879	
12	Cambridge-Isanti Bike/Walk Trail	7,921	-	8,340	16,261	68,684	
13	Pavement Management	56,297	111,236	267,000	212,061	427,620	Received transfer from General fund (\$267K) per the long-range plan.
14	Airport Improvement	131,135	123,101	15,000	23,034	22,000	2017 expenditures include cost related to updating the airport master plan.
15	2018 Street Improvement Project	429,364	181,551	-	247,813	828,496	Accumulating resources for the 2018 street project which includes reconstruction of streets in the Northwest quadrant of Cambridge.
16	TIF 6.9 - RTC Redevelopment	50,092	-	-	50,092	(1,078,129)	Deficit is to be eliminated by TIF 6.9 increment collections.
17	RTC Property Development	95	-	(40,000)	(39,905)	1,104,292	
18	Library Fund	4	-	-	4	495	
19	Refrigerated Ice Sheets	-	80,978	-	(80,978)	-	Fund was established to account for resources for construction of new refrigerated ice sheets and related facilities to the management of the ice sheets in Central Green Park.
	Total	\$1,327,241	\$718,727	\$696,125	\$1,304,639	\$4,120,735	

ENTERPRISE FUNDS

Water Utility Fund

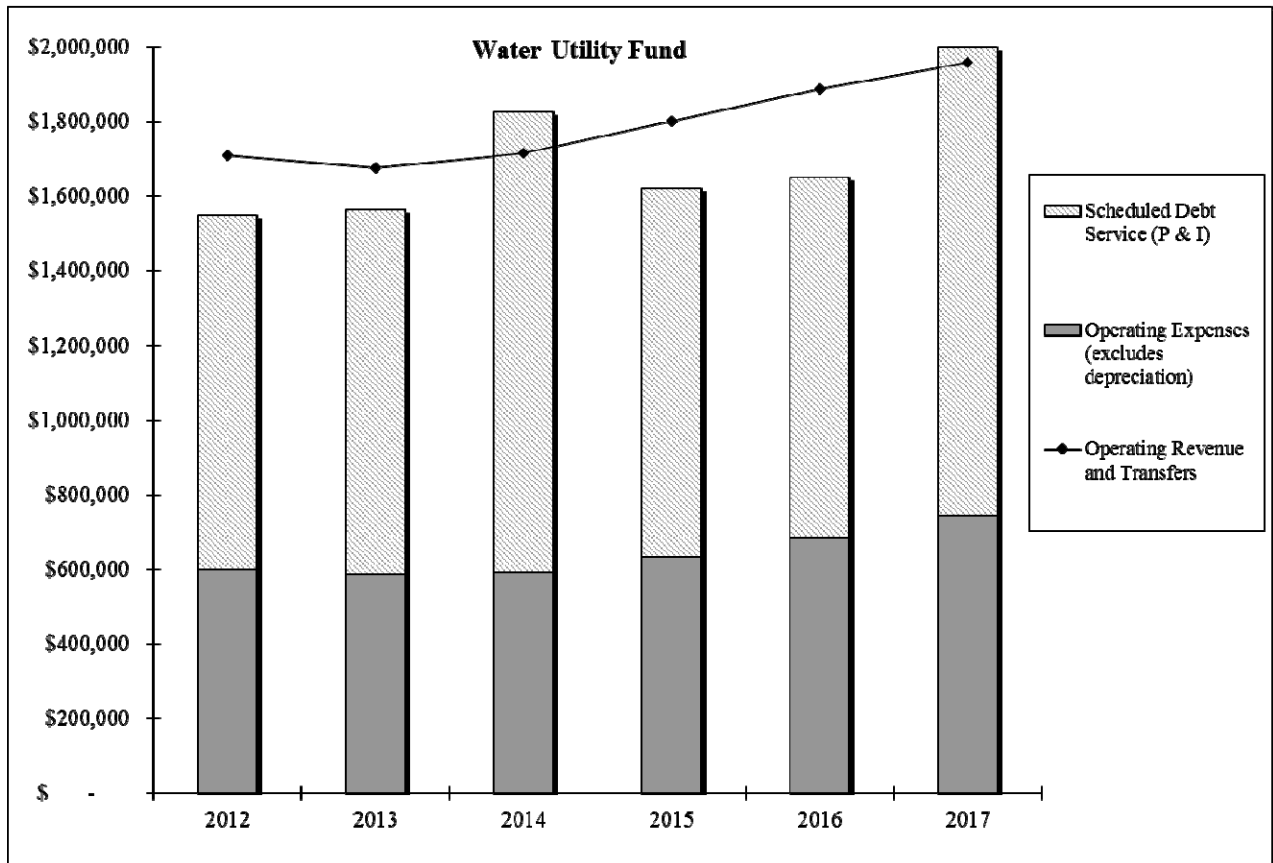
A summary of Water Fund cash flows is as follows:

Water Fund	<u>2017</u>	<u>2016</u>
Net cash from operating activities	\$1,095,498	\$1,117,089
Less scheduled debt service	<u>(1,094,242)</u>	<u>(981,344)</u>
Subtotal	1,256	135,745
Purchase of capital assets	(12,736)	(1,010,598)
Debt proceeds	-	1,818,880
Less prepayment of 2011A Bonds	(183,821)	-
Less prepayment of 2015 Bonds	-	(954,370)
Transfer to other funds	(12,500)	(13,000)
Transfer from other funds for debt service	100,000	100,000
Investment income	13,562	22,763
Special assessments	<u>7,298</u>	<u>7,298</u>
 Net change in cash and investments	 <u><u>(\$86,941)</u></u>	 <u><u>\$106,718</u></u>
 Cash and cash equivalents - December 31	 <u><u>\$2,332,861</u></u>	 <u><u>\$2,419,802</u></u>

A history of water rates is as follows:

Type of Charge	2014	2015	2016	2017
Monthly connection fee	\$11.95	\$12.43	\$13.05	\$13.31
Charge per 1,000 gallons:				
0 - 6,000 gallons	\$3.81	\$3.96	\$4.16	\$4.24
6,001 - 20,000 gallons	\$4.33	\$4.50	\$4.73	\$4.82
over 20,001 gallons	\$4.84	\$5.03	\$5.28	\$5.39

A chart of income from operations including debt service payments is presented below:



The City is managing water utility rates with the anticipation of the construction of a new 1 million gallon water tower beginning within the next five years.

Wastewater Treatment Utilities Fund

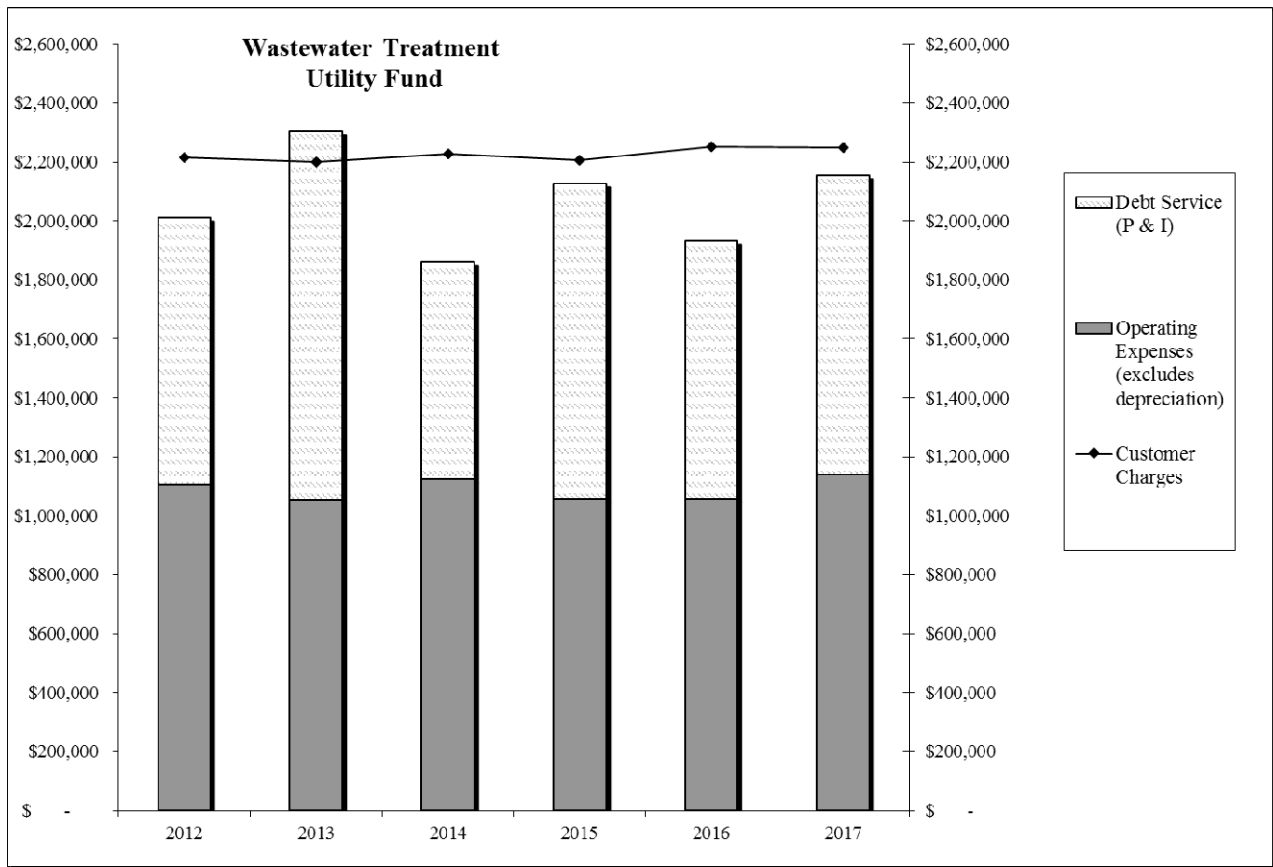
A summary of the cash flows of this fund is as follows:

Wastewater Fund	<u>2017</u>	<u>2016</u>
Net cash from operating activities	\$1,637,164	\$880,801
Less scheduled debt service	<u>(888,468)</u>	<u>(873,522)</u>
Subtotal	748,696	7,279
Capital expenditures	-	(730,387)
Transfers to / from other funds	(37,500)	(38,500)
Debt proceeds	-	1,461,219
Less prepayment of 2011A Bonds	(134,771)	-
Less prepayment of 2015 Bonds	-	(429,450)
Repayment of interfund loan	65,343	156,170
Investment income	27,097	33,827
Special assessments	<u>7,298</u>	<u>7,298</u>
 Net change in cash and investments	 <u>\$676,163</u>	 <u>\$467,456</u>
 Cash and cash equivalents - December 31	 <u>\$4,196,678</u>	 <u>\$3,520,515</u>

A history of rates is as follows:

Type of Charge	2014	2015	2016	2017
Area charge (per acre)	\$2,240	\$2,240	\$2,240	\$2,240
Availability charge	\$2,273	\$2,273	\$2,273	\$2,273
Monthly:				
Fixed charge	\$21.42	\$21.85	\$22.07	\$22.74
Cost per 1,000 gallons:				
0 - 6,000 gallons	\$3.46	\$3.53	\$3.57	\$3.67
6,001 - 20,000 gallons	\$3.79	\$3.87	\$3.91	\$4.03
over 20,001 gallons	\$4.33	\$4.42	\$4.46	\$4.60

A chart of income from operations (excluding depreciation and including debt service payments) is as follows:



Storm Sewer Utilities Fund

In 2001, the City established a Storm Sewer Utilities Fund to account for drainage fees designated for improving and maintaining the City's storm sewer system. A summary of cash flows is as follows:

Storm Sewer Fund	<u>2017</u>	<u>2016</u>
Net cash from operating activities	\$319,058	\$322,649
Less debt service	<u>(232,316)</u>	<u>(283,902)</u>
Subtotal	86,742	38,747
Purchase of capital assets	-	(484,054)
Debt proceeds	-	984,342
Less prepayment of 2011A Bonds	(29,677)	-
Less prepayment of 2015 Bonds	-	(484,050)
Investment income	<u>876</u>	<u>2,149</u>
 Net change in cash and investments	 <u>\$57,941</u>	 <u>\$57,134</u>
 Cash and cash equivalents - December 31	 <u>\$248,853</u>	 <u>\$190,912</u>

Municipal Liquor Store Fund

A summary of the cash flows of this fund is as follows:

Liquor Store Fund	<u>2017</u>	<u>2016</u>
Net cash from operating activities	\$506,597	\$578,360
Subtotal	506,597	578,360
Purchase of capital assets	-	(34,754)
Transfer to FCE Rink Capital Fund	-	(125,000)
Transfers to General Fund	(435,000)	(400,000)
Transfers to Park Improvement Capital	(34,000)	-
Investment income	2,625	3,859
Net change in cash and investments	<u>\$40,222</u>	<u>\$22,465</u>
Cash and cash equivalents - December 31	<u>\$373,911</u>	<u>\$333,689</u>

A comparison of 2017 to 9 municipal liquor stores (off sale only) located in East Central Minnesota as reported in the Office of the State Auditor’s “2016 Analysis of Minnesota Municipal Liquor Store Operations,” (most recent information available) is as follows:

	<u>2017 City of Cambridge</u>		<u>2016 Region</u>
	<u>Amount</u>	<u>Percent</u>	<u>Averages</u>
Sales	\$5,532,308	100.0%	100.0%
Cost of sales	4,178,917	75.5%	74.1%
Gross margin	1,353,391	24.5%	25.9%
Operating expenses	864,427	15.6%	18.6%
Operating income	<u>\$488,964</u>	<u>8.9%</u>	<u>7.3%</u>

Gross Margin Analysis

Gross margin measures the sales less the direct cost of products sold. The City’s gross margin percent is slightly below state averages for East Central Region off-sale operations.

	Sales	Cost of Sales	Gross Margin		State Average ⁽¹⁾
			Amount	Percent	
2017	\$5,532,308	\$4,178,917	\$1,353,391	24.5%	N/A
2016	5,396,677	4,077,693	1,318,984	24.4%	18.6%
2015	5,124,055	3,858,777	1,265,278	24.7%	26.1%
2014	4,975,410	3,753,437	1,221,973	24.6%	25.9%
2013	4,798,376	3,644,689	1,153,687	24.0%	25.4%
2012	4,684,053	3,576,131	1,107,922	23.7%	24.0%
2011	4,355,132	3,338,052	1,017,080	23.4%	25.5%
2010	4,174,750	3,198,873	975,877	23.4%	24.2%
2009	4,235,121	3,242,738	992,383	23.4%	24.2%
2008	4,117,635	3,151,140	966,495	23.5%	24.5%
2007	3,928,778	2,989,776	939,002	23.9%	24.5%
2006	3,632,879	2,786,466	846,413	23.3%	N/A
2005	3,393,129	2,592,305	800,824	23.6%	24.4%

Operating Expenses

Operating expenses have remained fairly constant over the past years as follows:

Year	Amount	Percent of Sales
2005	\$458,888	13.5%
2006	519,843	14.3%
2007	562,332	14.3%
2008	599,248	14.6%
2009	619,228	14.6%
2010	648,644	15.5%
2011	658,571	15.1%
2012	687,595	14.7%
2013	717,358	15.0%
2014	783,569	15.7%
2015	798,323	15.6%
2016	843,185	15.6%
2017	864,427	15.6%

ECONOMIC DEVELOPMENT AUTHORITY

This organization was established and began operations in 1989 pursuant to Minnesota Statute 469 (subsequently amended and recodified). The EDA is reported as a blended component unit.

The governing body of the EDA consists of the following:

President	Elected
Vice-President	Elected
Treasurer	Elected
Assistant Treasurer	Appointed
Secretary	Appointed
Executive Director	Appointed

The financial activity of the EDA is accounted for in an Administrative Fund.

The Housing Division financial activity is included in the City’s financial statements in two places – grant funds (Section 8 and State grants) are in Special Revenue Fund, Bridge Park rental and related grant activity is shown as an Enterprise Fund.

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

We have audited the financial statements of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the City of Cambridge, Minnesota for the year ended December 31, 2017. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards* , as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter dated December 7, 2017. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

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 2017.

We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions 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 most sensitive estimate affecting the financial statements was management’s estimate of

Communication with those Charged with Governance

the depreciation of capital assets and the net pension liability, pension related deferred inflows and outflows of resources, and pension expense. Estimates related to these items are based on history of useful lives of similar assets and actuarial studies. We evaluated the key factors and assumptions used to develop the estimates in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. Determining sensitivity is subjective, however, we believe the disclosure most likely to be considered sensitive are Note 7 – Defined Benefit Pension Plans – PERA.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant 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 trivial, and communicate them to the appropriate level of management. There are no uncorrected misstatements that have an effect on our opinion on the financial statements. In addition, none of the misstatements detected as a result of audit procedures and corrected 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 is 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 have requested certain representations from management that are included in the management representation letter dated April 2, 2018.

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

With respect to the supplementary information accompanying the financial statements, 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.

Accounting standards require the financial statements to include the reporting of Other Post Employment Benefits (OPEB). Management consulted with an Actuary to estimate the OPEB liability and has determined that it is immaterial to the financial statements taken as a whole and therefore, elected not to record the OPEB liability. Recent changes to GASB may require the reporting of OPEB in future financial statements.

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