

CITY OF CAMBRIDGE, MINNESOTA

AUDIT MANAGEMENT LETTER

December 31, 2015

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

We have completed the 2015 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.

Redpath and Company, Ltd.

REDPATH AND COMPANY, LTD.
St. Paul, Minnesota

March 29, 2016

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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 2014 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>	<p><i>Results of testing:</i></p> <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 findings of noncompliance • No internal control findings
<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
<i>Federal Compliance Report (Federal Single Audit)</i>	<p><i>Results of testing:</i></p> <ul style="list-style-type: none"> • Compliance with Federal grant requirements • Internal controls over grant compliance 	<ul style="list-style-type: none"> • No findings of noncompliance

EXECUTIVE SUMMARY

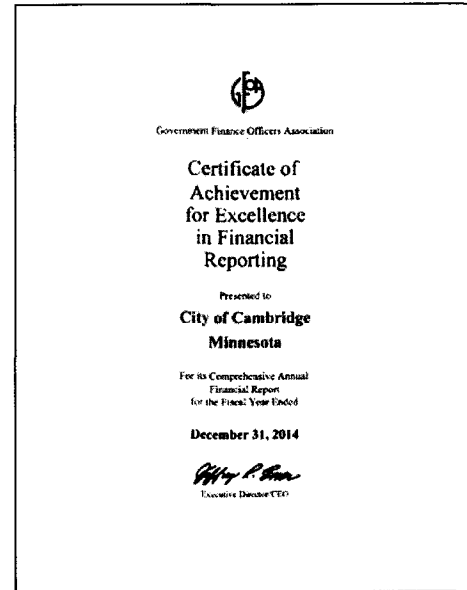
Several areas highlighted for your reference include the following:

The City received the Government Finance Officers Association (GFOA) “Certificate of Achievement for Excellence in Financial Reporting” for its 2014 Comprehensive Annual Financial Report.	Page 4
The current year property tax collection rate was 98.58% as compared to 98.96% for the prior year.	Page 6
The General Fund balance increased \$172,340 during 2015 to a balance of \$3,284,197 at December 31, 2015. Fund balance available for cash flow purposes met the goal set by policy.	Page 9
The Liquor Fund operating activities generated \$511,063 in cash flows which allowed for transfers of \$400,000 to the General Fund and \$78,000 to the Park Improvement Fund.	Page 23
The City implemented GASB’s new pension standard. This new accounting standard resulted in the City of Cambridge reporting a net pension liability of \$3,546,514 for the City’s pro-rata share of PERA’s net pension liability.	

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 2014 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 thirteenth (13th) year the City participated in this program and it is a significant achievement.

Summary of Financial Activity

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

	Fund	Revenue and Other Sources	Expenditures and Other Uses	Interfund Transfers (Net)	Increase (Decrease) in Fund Balance/ Net Position	Fund Balance/ Net Position 12/31/15
1	General	\$5,957,000	\$5,133,000	(\$651,000)	\$173,000	\$3,285,000
	Special Revenue:					
2	Senior Watch	40	-	-	40	3,140
3	Cable Franchise Fees	-	12,900	-	(12,900)	-
4	Forfeited Proceeds	5,000	8,000	-	(3,000)	1,000
5	Airport Operating	72,000	73,000	-	(1,000)	48,000
6	Police Administration Fines	10,000	17,000	-	(7,000)	19,000
7	MIF Revenue Loan	1,600	-	-	1,600	119,000
8	Downtown Revolving Loan	2,000	-	-	2,000	120,000
9	Cambridge-Isanti Bike/Walk Trail	5,000	7,000	7,000	5,000	9,000
10	Housing Programs	434,000	400,500	-	33,500	396,500
11	Special Response Team	3,500	300	1,000	4,200	4,200
12	Deed Grant	75,000	75,000	-	-	-
13	Debt Service	1,812,000	1,647,000	(503,000)	(338,000)	3,314,000
	Capital Projects:					
14	Water Treatment Facility	86,000	-	(100,000)	(14,000)	268,000
15	Water Area and Connection	26,000	-	-	26,000	576,000
16	Sewer Area Charge	8,000	-	-	8,000	83,000
17	Park Improvement Capital	103,000	237,000	418,000	284,000	578,000
18	Downtown Parking Construction	60	-	-	60	4,900
19	Tax Increment District 6.8	-	-	-	-	51,000
20	Police Capital	22,000	103,000	119,000	38,000	113,000
21	Public Works Capital Project	-	308,000	387,000	79,000	172,000
22	City Hall Capital Project	400	64,000	90,000	26,400	56,400
23	Fire Department Capital	50,000	38,000	51,000	63,000	351,000
24	Park Dedication Capital Project	900	-	30,000	30,900	93,500
25	Cambridge-Isanti Bike/Walk Trail	8,000	-	15,000	23,000	36,000
26	Pavement Management	19,000	160,000	160,000	19,000	426,000
27	Airport Improvement	43,000	45,000	-	(2,000)	27,000
28	TIF 6.9 - RTC Redevelopment	35,000	-	-	35,000	(1,171,000)
29	RTC Property Development	-	-	-	-	1,144,000
30	Parkland Conversion	6,000	-	-	6,000	465,000
31	2015 Street Improvement project	1,876,000	1,821,000	(425,000)	(370,000)	-
32	2016 Street Improvement project	110,000	144,000	288,000	254,000	445,000
33	Library Fund	-	390,000	390,000	-	-
	Enterprise Funds:					
34	Water	1,728,000	1,544,000	87,500	271,500	16,064,500
35	Wastewater	2,445,000	2,010,000	(37,500)	397,500	23,776,500
36	Storm Sewer	328,000	408,000	-	(80,000)	8,794,000
37	Municipal Liquor Store	5,134,000	4,657,000	(478,000)	(1,000)	1,784,000
38	Housing	275,000	203,000	-	72,000	988,000
	Internal Service Funds:					
39	Property Insurance	157,000	112,000	-	45,000	301,000
40	Pension Benefits	386,000	491,000	-	(105,000)	(3,292,000)
	Economic Development Authority:					
41	EDA Land Acquisition Capital Project	1,000	144,000	201,000	58,000	218,000
42	EDA Operating	267,000	177,000	(50,000)	40,000	340,600
	Total	\$21,491,500	\$20,429,700	\$0	\$1,061,800	\$60,012,240

Property Taxes

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

Fiscal Year Ended December 31,	Taxes Levied For The Fiscal Year ⁽¹⁾	Collected Within The Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
2006	\$3,774,449	\$3,648,253	96.66%	\$111,175	\$3,759,428	99.60%
2007	4,030,487	3,892,497	96.58%	65,264	3,957,761	98.20%
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%	104,762	4,247,582	96.74%
2012	4,680,361	4,518,032	96.53%	63,686	4,581,718	97.89%
2013	4,844,174	4,795,494	99.00%	(35,168)	4,760,326	98.27%
2014	4,844,174	4,793,705	98.96%	11,527	4,805,232	99.20%
2015	4,907,148	4,837,402	98.58%	-	4,837,402	98.58%

⁽¹⁾ Amount shown is after deduction for Market Value Homestead Credit.

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>
2010	\$737,509	\$703,016	\$39,004	\$33,186	95.3%
2011	835,405	621,224	26,832	225,697	74.4%
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%

As shown above, the delinquent assessments outstanding are not material and the collection rate continues to be good.

Long-Term Debt

A schedule of 2015 long-term debt activity is as follows:

	1/1/15 Balance	Additions	Reductions	12/31/15 Balance	Principal Due in 2016
Governmental activities:					
Bonds payable:					
G.O. improvement bonds	\$9,150,936	\$1,532,130	\$1,449,749	\$9,233,317	\$1,582,168
Issuance premium	199,335	-	29,857	169,478	29,857
Total bonds payable	9,350,271	1,532,130	1,479,606	9,402,795	1,612,025
Compensated absences	324,369	163,933	108,034	380,268	42,950
Total government activity long-term debt	<u>\$9,674,640</u>	<u>\$1,696,063</u>	<u>\$1,587,640</u>	<u>\$9,783,063</u>	<u>\$1,654,975</u>
Business-type activities:					
Bonds payable:					
G.O. revenue bonds	\$24,435,950	\$2,821,086	\$6,410,251	\$20,846,785	\$1,233,799
Issuance premium	364,551	-	41,337	\$323,214	41,337
Total bonds payable	24,800,501	2,821,086	6,451,588	21,169,999	1,275,136
Compensated absences	198,188	69,956	68,107	200,037	200,037
Total business-type activity long-term debt	<u>\$24,998,689</u>	<u>\$2,891,042</u>	<u>\$6,519,695</u>	<u>\$21,370,036</u>	<u>\$1,475,173</u>

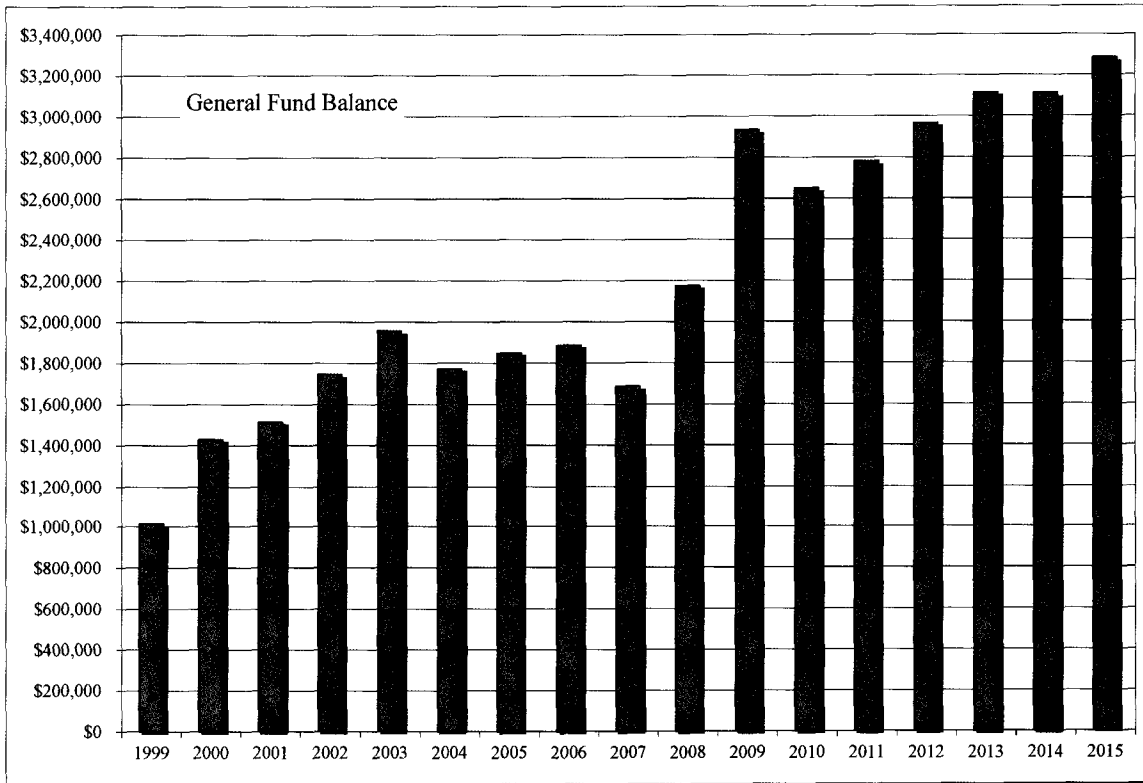
In 2013, the City authorized the issuance of \$15,062,300 of G.O Wastewater Revenue Notes (PFA Loan) to finance the wastewater treatment plant construction. As of December 31, 2015, \$11,230,397 was advanced by the MPFA. The PFA Loan amount authorized was based on the maximum amount needed to finance the project.

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.

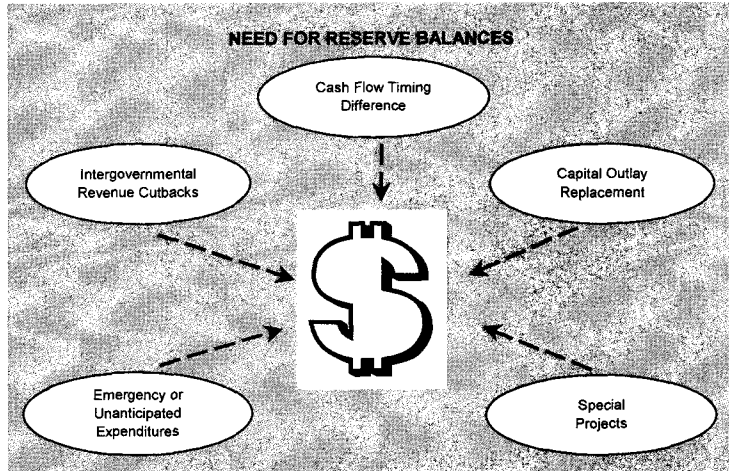
The fund balance of the General Fund increased by \$172,340 in 2015 as follows:

General Fund		
	<u>2015</u>	<u>2014</u>
Revenues and transfers in:		
General property taxes	\$4,281,835	\$4,052,040
Intergovernmental	1,043,930	993,046
All other	630,889	620,948
Transfers from other funds	515,000	450,000
Total revenues and transfers in	<u>6,471,654</u>	<u>6,116,034</u>
Expenditures and transfers out:		
General government	1,363,797	1,307,754
Public safety	2,147,800	1,959,011
Public works	1,621,801	1,756,469
Subtotal (general operations)	<u>5,133,398</u>	<u>5,023,234</u>
Transfers to other funds	1,165,916	1,095,235
Total expenditures and transfers out	<u>6,299,314</u>	<u>6,118,469</u>
Net increase (decrease) in fund balance	<u>\$172,340</u>	<u>(\$2,435)</u>

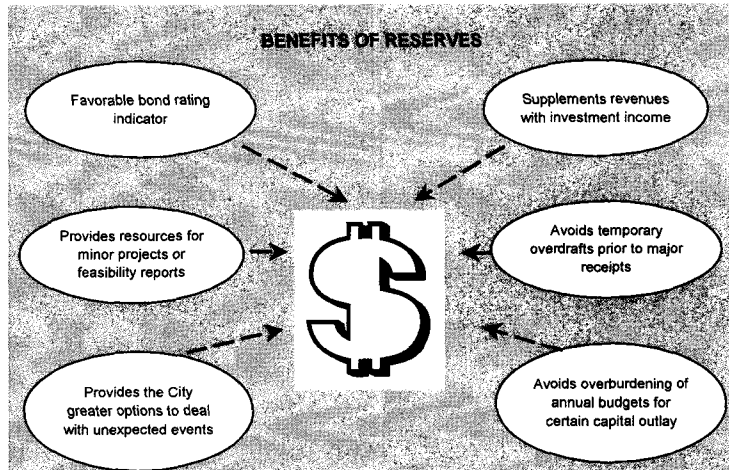
The City's December 31, 2015 fund balance totaled \$3,284,197. The City's General Fund balance has been as follows for the past several years:



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.



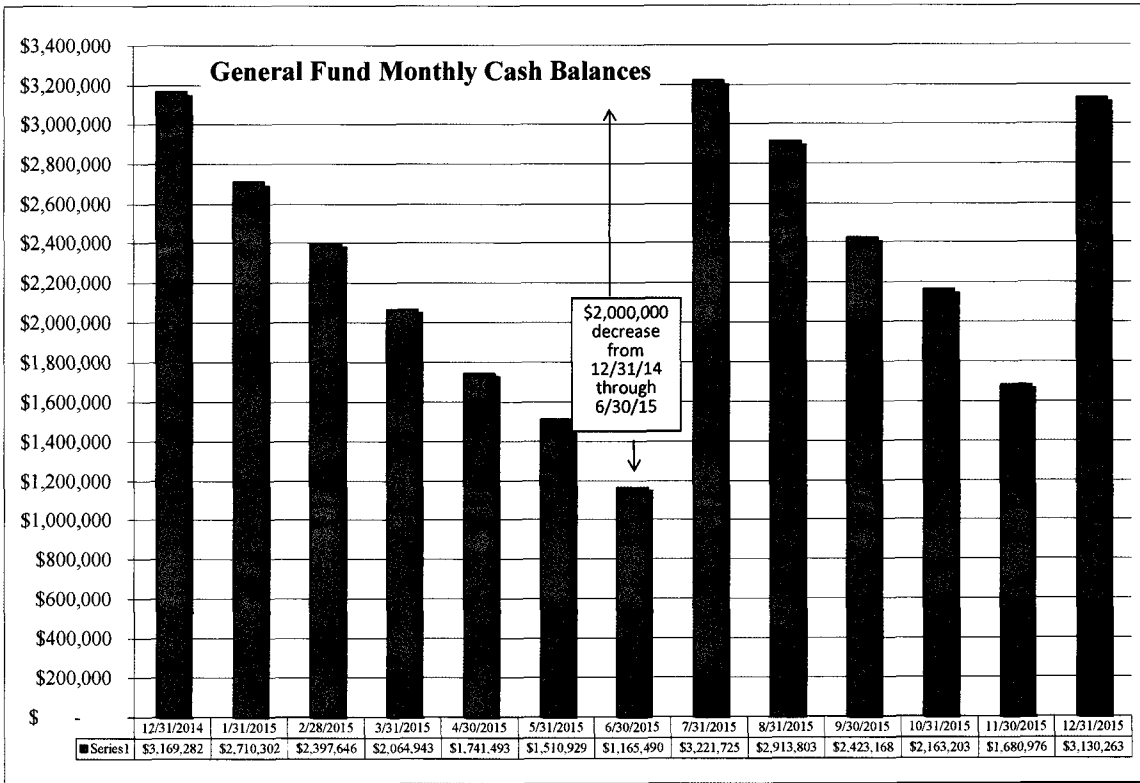
Cash Flow Reserve

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	
2016 budgeted levy	\$4,214,755
2016 anticipated LGA	<u>739,066</u>
Total	<u>\$4,953,821</u>
Minimum cash flow reserve (30% of total)	<u>\$1,486,146</u>
Maximum cash flow reserve (50% of total)	<u>\$2,476,911</u>
Amount available for cash flow reserve (45% of total)	<u>\$2,385,705</u>

As shown above, the December 31, 2015 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>2015</u>	<u>2014</u>
Nonspendable - prepaid items	\$250,151	\$269,415
Committed - compensated absences	337,320	324,369
Unassigned:		
Cash Flow (30% to 50% of tax ley + LGA)	2,385,705	2,213,306
Contingency (5% of budgeted expenditures)	273,526	268,096
Other	37,495	36,671
Total	<u>\$3,284,197</u>	<u>\$3,111,857</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 twelve Special Revenue Funds as follows:

	Fund	Revenue and Other Sources	Expenditures and Other Uses	Interfund Transfers (Net)	Increase (Decrease) in Fund Balance	Fund Balance 12/31/15	Comments
	Special Revenue:						
1	Senior Watch	\$40	\$ -	\$ -	\$40	\$3,136	
2	EDA Operating	267,490	177,316	(50,000)	40,174	340,652	Accounts for Mall operations. 2015 activity includes Workforce Center buildout (\$38,000).
3	Cable Franchise Fees	-	12,849	-	(12,849)	-	
4	Forfeited Proceeds	5,458	8,295	-	(2,837)	1,016	
5	Airport Operating	72,037	73,219	-	(1,182)	48,272	
6	Police Administration Fines	10,344	17,403	-	(7,059)	18,502	
7	MIF Revenue Loan	1,540	-	-	1,540	118,979	
8	Downtown Revolving Loan	2,006	-	-	2,006	119,901	
9	Cambridge-Isanti Trail Operations	5,451	6,647	6,660	5,464	9,477	
10	Housing Programs	434,005	400,477	-	33,528	396,392	Accounts for Section 8 Voucher program.
11	Special Response Team	3,514	328	1,000	4,186	4,186	
12	Deed Grant	75,376	75,376	-	-	-	
	Total	\$877,261	\$771,910	(\$42,340)	\$63,011	\$1,060,513	

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 2015 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 2009	\$669,253	\$133,610	\$802,863	\$827,465	\$115,000	2/1/2020
Improvement Bonds of 2010A	292,319	143,044	435,363	235,746	-	2/1/2019
Improvement Bonds of 2011A (Parkwood portion)	499,580	141,545	641,125	435,000	-	2/1/2021
Improvement Bonds of 2011A (Refunding portion)	640,353	88,114	728,467	666,236	-	2/1/2021
Bonds of 2012 (Improvement portion)	352,901	369,482	722,383	1,755,000	} 3,535,700	2/1/2023
Bonds of 2012 (City Hall refinance portion)	246,955	-	246,955	2,325,000		2/1/2021
Improvement Bonds of 2014	331,938	723,471	1,055,409	1,456,740	-	2/1/2025
Improvement Bonds of 2015	258,236	558,973	817,209	1,532,130	1,082,048	7/1/2018
Total	\$3,291,535	\$2,158,239	\$5,449,774	\$9,233,317	\$4,732,748	

CAPITAL PROJECT FUNDS

The fund balances (deficits) of the Capital Project Funds were as follows at December 31, 2015:

	Fund	Revenue and Other Sources	Expenditures and Other Uses	Interfund Transfers (Net)	Increase (Decrease) in Fund Balance/ Net Assets	Fund Balance/ Net Assets 12/31/15	Comments
Capital Projects:							
1	Water Treatment Facility	\$86,192	\$ -	(\$100,000)	(\$13,808)	267,708	\$100K was transferred to Water Fund to assist with debt service.
2	Water Area and Connection	25,499	-	-	25,499	575,017	
3	Sewer Area Charge	7,876	-	-	7,876	82,894	
4	Park Improvement	103,162	236,622	418,000	284,540	578,067	Received transfer from General Fund (\$55K) and 2011A debt service fund (\$150K). Expenditures include improvements funded by Legacy grant.
5	Downtown Parking Construction	63	-	-	63	4,916	
6	TIF 6.8	-	-	-	-	50,921	
7	Police Capital	21,579	103,372	119,000	37,207	112,539	Received transfer from General Fund (\$55K). 2015 expenditures include Police SUV and Police Interceptor.
8	Public Works Capital Project	-	307,580	387,000	79,420	172,285	Received transfer from General Fund (\$250K). 2015 expenditures include snow plow (\$178K), bucket truck (\$25K), sidewalk snow remover (\$97K).
9	City Hall Capital Project	425	64,208	90,000	26,217	56,570	Received transfer from General Fund. 2015 expenditures include Council Chamber AV system and alarm system.
10	Fire Department Capital	49,648	38,180	51,653	63,121	351,051	Received transfer from General Fund.
11	EDA Land Acquisition Capital Project	1,266	144,168	201,192	58,290	218,746	This fund holds Land Held for Resale in amount of \$581K. 2015 expenditures include land purchases of Clark property and old MNDOT land.
12	Park Dedication Capital Project	851	-	29,690	30,541	93,160	
13	Cambridge-Isanti Bike/Walk Trail	7,717	-	15,000	22,717	36,139	
14	Pavement Management	19,078	160,470	160,000	18,608	425,372	Received transfer from General Fund per long range plan.
15	Airport Improvement	42,808	44,710	-	(1,902)	27,375	
16	2015 Street Improvement Project	1,876,196	1,820,846	(424,821)	(369,471)	-	
17	2016 Street Improvement Project	109,790	144,128	287,821	253,483	444,868	
18	TIF 6.9 - RTC Redevelopment	34,982	-	-	34,982	(1,170,958)	Deficit to be eliminated by TIF 6.9 increments.
19	RTC Property Development	-	-	-	-	1,144,185	
20	Parkland Conversion	6,018	-	-	6,018	464,864	
21	Library Fund	-	389,509	390,000	491	491	Received transfer from 2011A Debt Service Fund. 2015 expenditures include purchase of Library site.
	Total	\$2,393,150	\$3,453,793	\$1,624,535	\$563,892	\$3,936,210	

ENTERPRISE FUNDS

Water Utility Fund

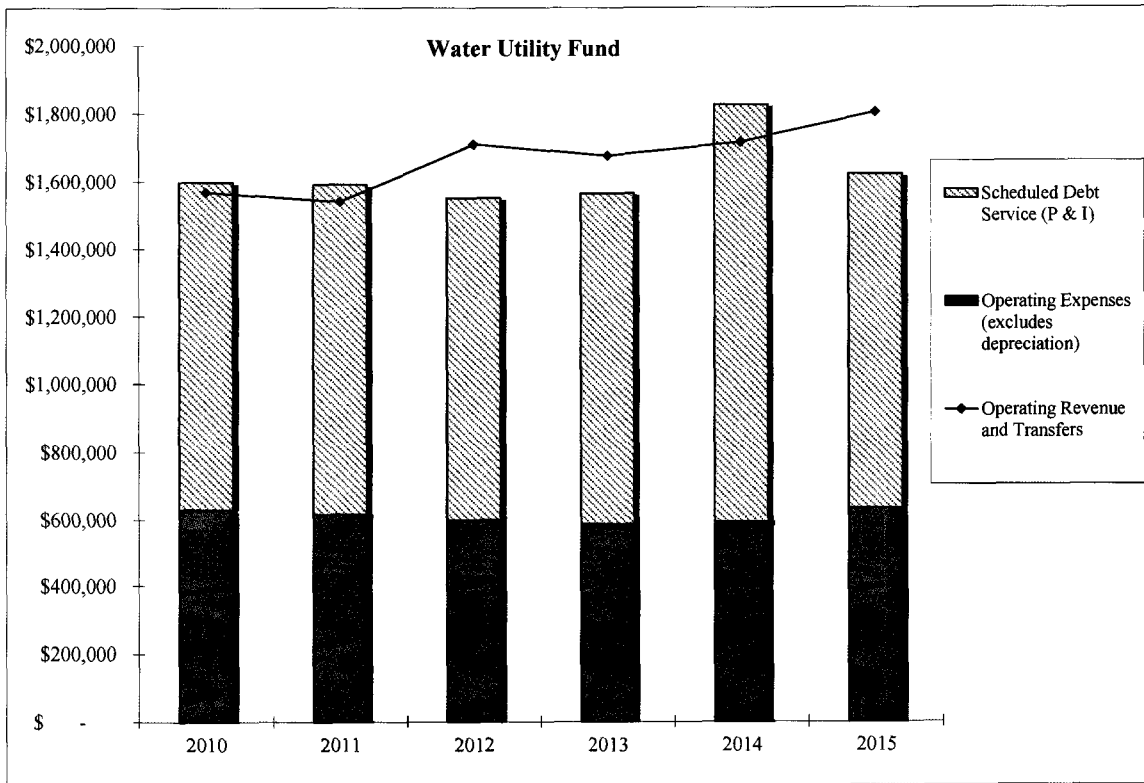
A summary of Water Fund cash flows is as follows:

Water Fund	<u>2015</u>	<u>2014</u>
Net cash from operating activities	\$1,070,547	\$1,011,482
Less scheduled debt service	(987,238)	(1,231,779)
Less prepayment of 2005A Bonds	<u>(4,565,000)</u>	-
Subtotal	(4,481,691)	(220,297)
Purchase of capital assets	(982,382)	(910,149)
Debt proceeds	950,581	5,752,294
Transfer to other funds	(12,500)	(12,500)
Transfer from other funds for debt service	100,000	100,000
Investment income	24,351	57,211
Special assessments	<u>7,297</u>	<u>7,298</u>
Net change in cash and investments	<u>(\$4,394,344)</u>	<u>\$4,773,857</u>
Cash and cash equivalents - December 31	<u>\$2,313,084</u>	<u>\$6,707,428</u>

A history of water rates is as follows:

Type of Charge	2012	2013	2014	2015
Monthly connection fee	\$11.40	\$11.60	\$11.95	\$12.43
Charge per 1,000 gallons:				
0 - 6,000 gallons	\$3.50	\$3.70	\$3.81	\$3.96
6,001 - 20,000 gallons	\$4.00	\$4.20	\$4.33	\$4.50
over 20,001 gallons	\$4.50	\$4.70	\$4.84	\$5.03

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



Wastewater Treatment Utilities Fund

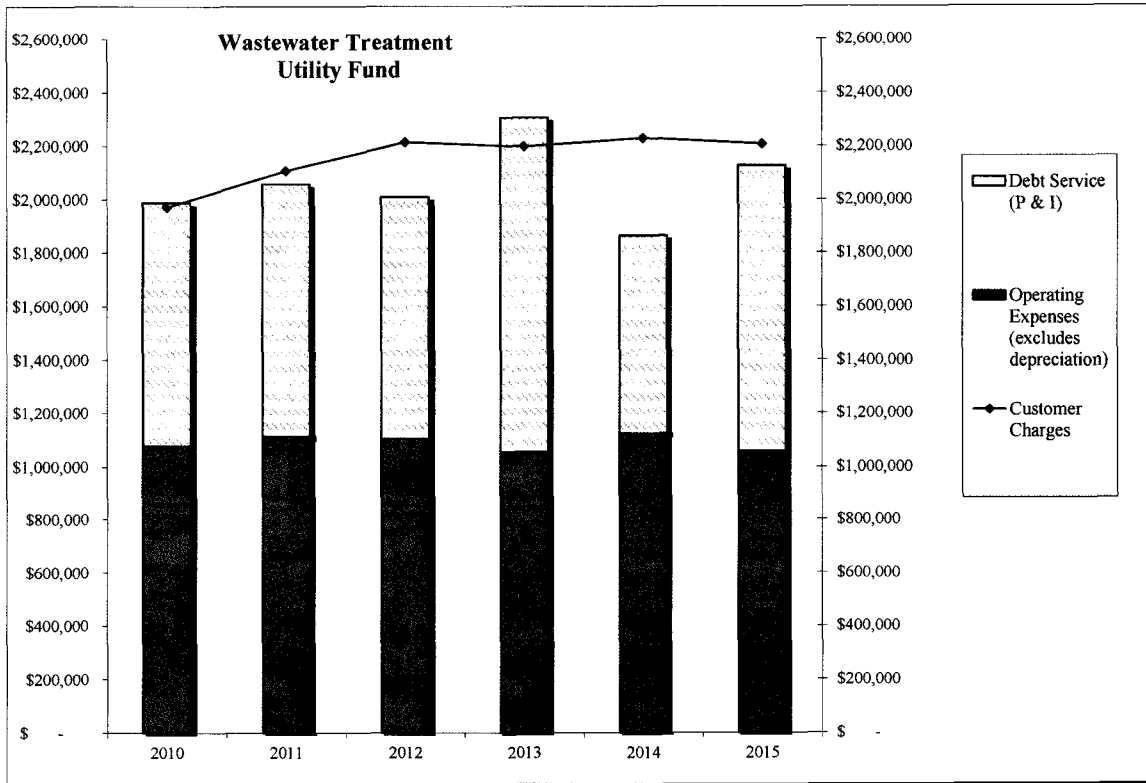
A summary of the cash flows of this fund is as follows:

Wastewater Fund	<u>2015</u>	<u>2014</u>
Net cash from operating activities	\$1,057,812	\$924,721
Less debt service	<u>(1,073,518)</u>	<u>(738,788)</u>
Subtotal	(15,706)	185,933
Capital expenditures	(1,103,570)	(8,789,471)
Transfers to / from other funds	(37,500)	(37,500)
Debt proceeds	1,380,961	7,967,502
Issuance costs	-	-
Change in interfund loan	75,897	48,228
PSIG grant	-	1,181,432
Investment income	36,748	54,860
Special assessments	<u>7,297</u>	<u>7,298</u>
Net change in cash and investments	<u>\$344,127</u>	<u>\$618,282</u>
Cash and cash equivalents - December 31	<u>\$3,053,059</u>	<u>\$2,708,932</u>

A history of rates is as follows:

Type of Charge	2012	2013	2014	2015
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	\$21.00	\$21.42	\$21.85	\$22.07
Cost per 1,000 gallons:				
0 - 6,000 gallons	\$3.36	\$3.46	\$3.53	\$3.57
6,001 - 20,000 gallons	\$3.68	\$3.79	\$3.87	\$3.91
over 20,001 gallons	\$4.20	\$4.33	\$4.42	\$4.46

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>2015</u>	<u>2014</u>
Net cash from operating activities	\$318,896	\$317,482
Less debt service	(284,874)	(269,703)
Subtotal	34,022	47,779
Purchase of capital assets	(484,050)	(455,000)
Debt proceeds	482,128	447,958
Investment income	80	383
Net change in cash and investments	<u>\$32,180</u>	<u>\$41,120</u>
Cash and cash equivalents - December 31	<u>\$133,778</u>	<u>\$71,054</u>

Municipal Liquor Store Fund

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

Liquor Store Fund	<u>2015</u>	<u>2014</u>
Net cash from operating activities	\$511,063	\$508,634
Less debt service	-	-
Subtotal	<u>511,063</u>	<u>508,634</u>
Purchase of capital assets	(22,876)	(15,636)
Transfers to General Fund	(400,000)	(350,000)
Transfers to Park Improvement Capital	(78,000)	(79,315)
Investment income	<u>4,608</u>	<u>3,692</u>
Net change in cash and investments	<u>\$14,795</u>	<u>\$67,375</u>
Cash and cash equivalents - December 31	<u>\$311,224</u>	<u>\$296,429</u>

A comparison of 2015 to 9 municipal liquor stores (off sale only) located in East Central Minnesota as reported in the Office of the State Auditor’s “2014 Analysis of Minnesota Municipal Liquor Store Operations,” (most recent information available) is as follows:

	<u>2015 City of Cambridge</u>		<u>2014 Region</u>
	<u>Amount</u>	<u>Percent</u>	<u>Averages</u>
Sales	\$5,124,055	100.0%	100.0%
Cost of sales	<u>3,858,777</u>	<u>75.3%</u>	<u>74.1%</u>
Gross margin	1,265,278	24.7%	25.9%
Operating expenses	798,323	15.6%	17.0%
Operating income	<u>\$466,955</u>	<u>9.1%</u>	<u>8.9%</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	
2015	\$5,124,055	\$3,858,777	\$1,265,278	24.7%	N/A
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	1,112,922	23.8%	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	23.5%	24.2%
2008	4,117,635	3,151,140	966,495	23.4%	24.5%
2007	3,928,778	2,989,776	939,002	23.3%	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%
2004	3,194,490	2,431,033	763,457	23.9%	27.9%

Operating Expenses

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

Year	Amount	Percent of Sales
2004	\$440,096	13.8%
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%

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, 2015. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards* and Title 2 U.S. Code of Federal Regulations Part 200, 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 October 7, 2014. 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. As described in Notes 7 and 17 to the financial statements, the City implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27* for the year ended December 31, 2015. The most significant effect of this standard is that it required the City to record its proportionate share of the net pension liability of defined benefit pension plans, as well as related deferred inflows and outflows of resources. These items are only reported on full-accrual financial statements. The liability was initially recorded by restating beginning net position. It should be noted that the City's contribution requirements to pension plans have not changed as a result of this standard.

Communication with those Charged with Governance

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 the depreciation of capital assets and of the net pension liability and the pension related deferred inflows and outflows of resources. Estimates related to these items are based on 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 disclosures most likely to be considered sensitive are Note 7 – Retirement Plans and Note 17 – Change in Accounting Principle.

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 corrected misstatements that have an effect on our opinion on the financial statements.

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 March 29, 2016.

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.

This information is intended solely for the 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.