

MINUTES OF THE ANNUAL AUDIT PRESENTATION
TO THE BRAHAM CITY COUNCIL
TUESDAY, MAY 8, 2018
6:30 P.M.

The 2017 Annual Audit Presentation was called to order with the following present: Mayor Patricia Carlson; Council Members Lowell Jaques, Shawn Sullivan, Jeremy Kunshier, and Vicky Ethen; and City Administrator Sally Hoy.

In the audience were Police Chief Eric Baumgart, Liquor Store Manager Jacque Nordby, and Delwayne Hahn from the Isanti County News.

City Auditor Greg Burkhardt walked the council through the 2017 annual audit, noting that the City received a clean report.

He reported the Cash and Cash Equivalents for the City was \$1,787,720 which was an increase of about \$2,000 over 2016.

He noted the new addition on the report was the Component Unit for the Housing and Redevelopment Authority. He explained the Component Unit is an entity that is legally separate from the City but because of their inner relation with the City operation, some of the statutory control over that entity requires that it has be brought in under the reporting umbrella. He noted this does not mean the City is responsible for their operation, but that it is reported under the City reporting umbrella.

Burkhardt reported the Total Liabilities for the City was \$4,894,444. He noted that is down by \$1.16 million dollars due to an \$800,000 decrease in the City's PERA pension liability and \$300,000 in scheduled bond payments that were made. He said not only did the City maintain its cash balances, it decreased its long-term liabilities by a large amount, noting the City was in pretty good shape.

He reported the Governmental Funds had a cash balance of \$1,193,013 which was about a \$5,000 increase over 2016.

He noted the City's Unassigned General Fund balance was \$529,415. He explained that the City has complete spending authority over these funds, meaning they are not restricted for particular purposes. He noted that the State Auditor's Office has guidelines that a city should have an Unassigned Fund Balance of 40-50% of its current expenditures, and that Braham is right in there with \$529,415 which represents 44% of the current expenditures. He encourage the City to continue to maintain this percentage. He noted the Assigned General Fund balance was at \$291,215 which are monies put away for different purposes. He told the council the City is doing a great job at maintaining both.

Under the General Fund Revenues & Expenditures Budget to Actual comparisons, he reported the revenues at \$1,243,277 which was \$115,650 over the budgeted \$1,127,627. He noted this

increase was due to the \$33,000 value of the Ercoa building that was donated to the City, and the \$40,000 received from Milaca from excess cash in the Joint Powers fund.

He reported the expenditures at \$1,315,475 which was \$132,053 over the budgeted \$1,183,422. He noted this was due to additional wages in public safety, the fair market value for the Ercoa building, and the \$40,000 broadband to the Industrial Park.

Under the Water Fund Revenues & Expenditures Budget to Actual comparisons, he said the City was sitting pretty good on the revenues with budgeted revenues at \$264,450 and actual revenues at \$284,141. Under the operating expenditures, he reported budgeted expenditures at \$144,642 and actual expenditures at \$227,211 but noted that \$56,568 is depreciation expense, which is not cash spent and therefore the City does not budget for it. He noted the Water Fund had a healthy profit of \$41,944 in spite of some unexpected expenses.

Under the Sewer Fund Revenues & Expenditures Budget to Actual comparisons, he reported the budgeted revenues at \$315,751 and actual at \$317,306. Under operating expenses, he reported \$288,607 budgeted and \$357,037 actual, but again noted this includes \$69,202 is depreciation expense, which is not cash spent and therefore the City does not budget for it. He reported the change in net position was (\$54,191) but if they take off the depreciation expense, the fund is in the black. He noted the cash balance is holding steady. He said overall, the City was sitting pretty healthy in the Sewer Fund.

Burkhart then directed the council to the Liquor Fund, referring to this as a “Shining Star.” He reported the revenues at \$1,428,175 which was an increase of \$50,000 from 2016. He reported the gross profit at \$363,397 which was an increase of \$8,000 over 2016, with the percentage sitting at about 26%. He noted this was very, very good results, and commended Liquor Store Manager Jacque Nordby for doing such a great job. Under the operating expenses, he reported income from operations at \$103,879 compared to \$65,326 in 2016. He stated the increase was due to a decrease in total wages and an increase in sales. He recommended the City use the 2016 numbers as a guide for future budget projections.

Under the Notes to the Basic Financial Statements, he showed the council the breakdown of the Non-spendable, Restricted, Assigned, and Unassigned Funds Balances. He said that during an audit, they look at these fund balances to see if the City is giving some consideration to its future spending. He noted this also helps the City’s bond rating. He said bond rating companies take a close look at these to see if the City’s fund balances are being well-managed and the City is looking down the road 5-10 years. He said this is a great indication of that.

Under the Net Pension Liabilities, he reported the Plan Fiduciary Net Position of the Total Pension Liability for the General Employees was funded at 75.9% and the Police & Fire was funded at 85.4%. He noted that the State’s increases on the contribution rates will affect future budgets. He said these rates change year-to-year by what the State does. Under the Fire Relief Pension, he noted Plan Fiduciary Net Position of the Total Pension Liability was at 115.63%.

Burkhardt presented the Municipal Legal Compliance Report, and told the council that this carries the most weight in the audit. He said the Minnesota Legal Compliance Audit Guide for

Cities is put together by the State Auditor pursuant to Minnesota Statute, and contains seven categories of compliance to be tested. He reported that through all their audit and everything they looked at, nothing caused them to believe that the City has not complied with all the provisions that the State Auditor put together for requirements. He commended the City for doing a great job resulting in a clean audit.

Under the Schedule of Findings and Responses on Legal Compliance and Internal Controls, he noted Braham hires his firm to prepare the financial statements, which he said is common practice with all the cities in Minnesota except the very large ones. He noted the segregation of duties in Braham is limited due to the small staff. He recommended the council continue to stay actively involved in the City's finances, and commended them for doing so.

Burkhardt concluded the annual audit presentation by saying the City's cash balances are sitting in great shape, and the City is doing a good job forecasting for the future. He said he was very happy with these reports.

Council Member Jaques asked Burkhardt if the book loss in the Sewer Fund would come back and bite the City, and Burkhardt replied that it could possibly affect bonding for a sewer project, but explained that when bond companies look at issuing bonds, they look more at the debt service coverage, which he said was in good shape for the City.

With no other questions or comments, Ethen moved, and Jaques seconded to adjourn. Motion carried 5-0.

Respectfully Submitted,

Sally A. Hoy
Clerk/Administrator