

MINUTES OF THE SPECIAL MEETING  
FOR THE ANNUAL AUDIT PRESENTATION  
TO THE BRAHAM CITY COUNCIL  
TUESDAY, JUNE 4, 2019  
6:30 P.M.

The Special Meeting for the Annual Audit Presentation was called to order with the following present: Mayor Patricia Carlson; Council Members Robert Knowles, Shawn Sullivan, and Jeremy Kunshier; and City Administrator Sally Hoy. Council Member Vicky Ethen was absent.

In the audience were: Liquor Store Manager Jacque Nordby; Police Officer Kevin Lease; and Delwayne Hahn from the County News Review.

City Auditor Greg Burkhardt gave the council a power-point presentation of the 2018 Annual City Audit, along with copies of the 2018 Financial Statements. He explained the Management's role and responsibility that included the basic financial statements and maintenance of internal controls, and the Auditor's role and responsibility that include issuing an opinion of the basic financial statements, reporting on internal controls over financial reporting, and reporting on compliance with Minnesota statutes tested.

Burkhardt reported the Audit Results as a clean audit with no legal compliance issues and no material weaknesses. He commended Administrator Hoy for doing a wonderful job, making their audit process much simpler. He listed the significant deficiencies as the City's preparation of financial statements, but noted it is not cost effective for the City to prepare their own statements, so he recommended the City continue to hire his firm to prepare the statements. Segregation of duties was also listed, due to the limited number of staff. As noted in the past audit presentations, these are not uncommon for smaller cities, and just recommended the City stay actively involved in the finances. He reported they made 40 year-end journal entries, and none of them were for uncorrected adjustments.

Burkhardt told the council that all the disclosures were clear and complete, there were no disagreements with management or consultants, and there were no issues discussed other than the normal planning issues. He said management was cooperative and helpful, and records were in good condition. He noted appreciation to Hoy and the staff for the good records.

He presented slides reflecting operations for the year for the council to get a broader financial picture of the City. He began with the Cash Balances of the Governmental and Business Activities. He reported the cash in Governmental Activities had increased from an average of \$1.2M to \$1.6M in 2018, largely due to the 2018 Streets & Utility Bond proceeds remaining for the project to be completed in 2019. He reported the Business Activities were very stable at an average of \$600,000. He reported the City's cash reserve in the Governmental Activities would cover 350 days, and 263 on an average, and said these were excellent cash reserves. He reported the cash reserve in the Business Activities would cover 95 days, which he said is the trend they see in a lot of cities they audit because of the timing of billing customers and receiving payments. He said this was appropriate based on what they are seeing in other cities. He

suggested the City check with the bank on interest rates for CDs, as interest rates are climbing back up to 2.5-3%.

In the Budget to Actual comparison in the General Fund, he reported revenues came in at \$121,359 over budget, and expenditures were \$301,902 over budget. He noted the majority of this was in the Police Department, and that a lot of it was covered by transfers in from the Liquor Fund. He reported expenses for storm damage in 2018 were covered by \$186,000 in insurance recovery from the LMCIT. He said there were no major concerns or issues going on with the General Fund Budget.

Burkhardt reported that the Unassigned Fund Balance of the General Fund was \$746,947 which is 48.4% of the annual budgeted expenditures. He told the council this is right in with the 40-50% recommended by the State Auditor, and that the City has continued to meet this requirement over the last five years he included in the report. He said the City's General Fund Balance is in great shape, and told the council to be watchful not to drop below because it was right where he likes to see the city.

Burkhardt reported the City's Debt Service Fund Balances and Bond Indebtedness had increased, but noted the City has the resources to pay the debt. He referenced the principal and interest portions of the debts listed as:

- 2011A Refunding Bond
- 2013B GO Equipment Bond
- 2013A GO Street Improvement Bond
- 2016B GO Street Improvement Bond
- 2016A GO Equipment Bond
- 2018A GO Streets & Utilities Improvement Bond

He noted that interest rates are starting to creep back up, so that is something the council should be aware of when issuing future debt.

Burkhardt then reported on the Enterprise Funds.

In the Water Fund, he reported an Income from operations of \$49,420 and a change in Net Position of \$89,564. (*Does not include bond principal payments of \$129,000 but does include Depreciation Expense of \$55,812.*) He said he considered the Water Fund to be in great shape.

In the Sewer Fund, he reported a Loss from operations of (\$70,914) and a change in Net Position of (\$51,322). (*Does not include bond principal payments of \$15,000 but does include Depreciation Expense of \$70,110.*) He noted there was an increase in expenditures for Professional Fees and Repairs & Maintenance in the Sewer Fund, and suggested the council look at a rate increase. Administrator Hoy and Mayor Carlson replied that the council just did a rate increase in March, which he was glad to hear.

In the Liquor Fund, he reported operating revenues increased \$150,000 over last year. He said operating expenses increased \$13,000 but \$6,000 was from pension liability reporting. Burkhardt

said Income before transfers was \$112,819 and \$29,045 after transferring \$83,774 to the General Fund.

He showed the council a graph of Operating Cash Flow and Ratio Analysis of the Enterprise Funds. He reported the Debt Service as a percent of operating revenues is 52% in the Water Fund, and 9% in the Sewer Fund. Burkhardt recommended the council to continue to review the rates as the year goes on.

With no questions or comments, Sullivan moved, and Kunshier seconded to adjourn. Motion carried 4-0. The meeting adjourned at 7:04 p.m.

Respectfully Submitted,

Sally A. Hoy  
City Administrator