



**COLOGNE CITY COUNCIL
Notice of Special Meeting
Monday, August 20, 2018, at
6:00PM**

NOTICE IS HEREBY GIVEN that on Monday, August 20, 2018 at 6:00 PM, the Cologne City Council will meet in a special meeting to review the audited financial statements dated December 31, 2017.

The meeting will be held at City Hall, 1211 Village Parkway, Cologne, MN 55322.

The public will be allowed to attend this meeting.

By Order of the Cologne City Council



Executive Summary
December 31, 2017

City of Cologne, Minnesota

Purpose of the Executive Summary

The City receives audited financial statements each year, however the document is long and readers may find it difficult to read and understand. In an effort to help facilitate understanding we have put together an executive summary containing summarized information from the audited financial statements, as well as graphs and ratios. We believe the City Council, management, and citizens of the City of Cologne will have a clearer picture of the financial condition of the City by reading this summary. This is not a required report and we offer no opinion on the executive summary.

We hope this executive summary encourages discussion of the City's financial condition and to:

- Alert the City Council and management to financial condition trends, both favorable and unfavorable.
- Put the City's financial condition in perspective by compiling data for several years.

We obtained the idea of an executive summary format based on a review of the Comprehensive Annual Financial Report (CAFR) of the City of Sioux Falls, South Dakota, done by the Internal Audit department of the City in May 2009.

Audit Opinion

The City received a "clean" audit opinion. What does that really mean? The audit opinion is a brief report that appears with the financial statements. A clean audit opinion is more precisely referred to as an unmodified opinion. An *unmodified opinion* means that the financial statements have been prepared using accounting principles generally accepted in the United States of America (or another acceptable form of accounting), do not contain material misstatements, and are fairly presented.

Some readers of financial statements with an unmodified (clean) audit opinion believe that the auditors are signifying that the organization has a financial clean bill of health. They may believe the auditors are indicating that there is no fraud, that the organization is using its resources effectively and efficiently, and that the organization is in compliance with all laws and regulations. The auditor's report (audit opinion) on a financial statement audit is merely the auditor's professional opinion, based on audit work, on whether the financial statements were prepared in accordance with the State of Minnesota requirements, and are free from material misstatement.

Audit of Federal Funds

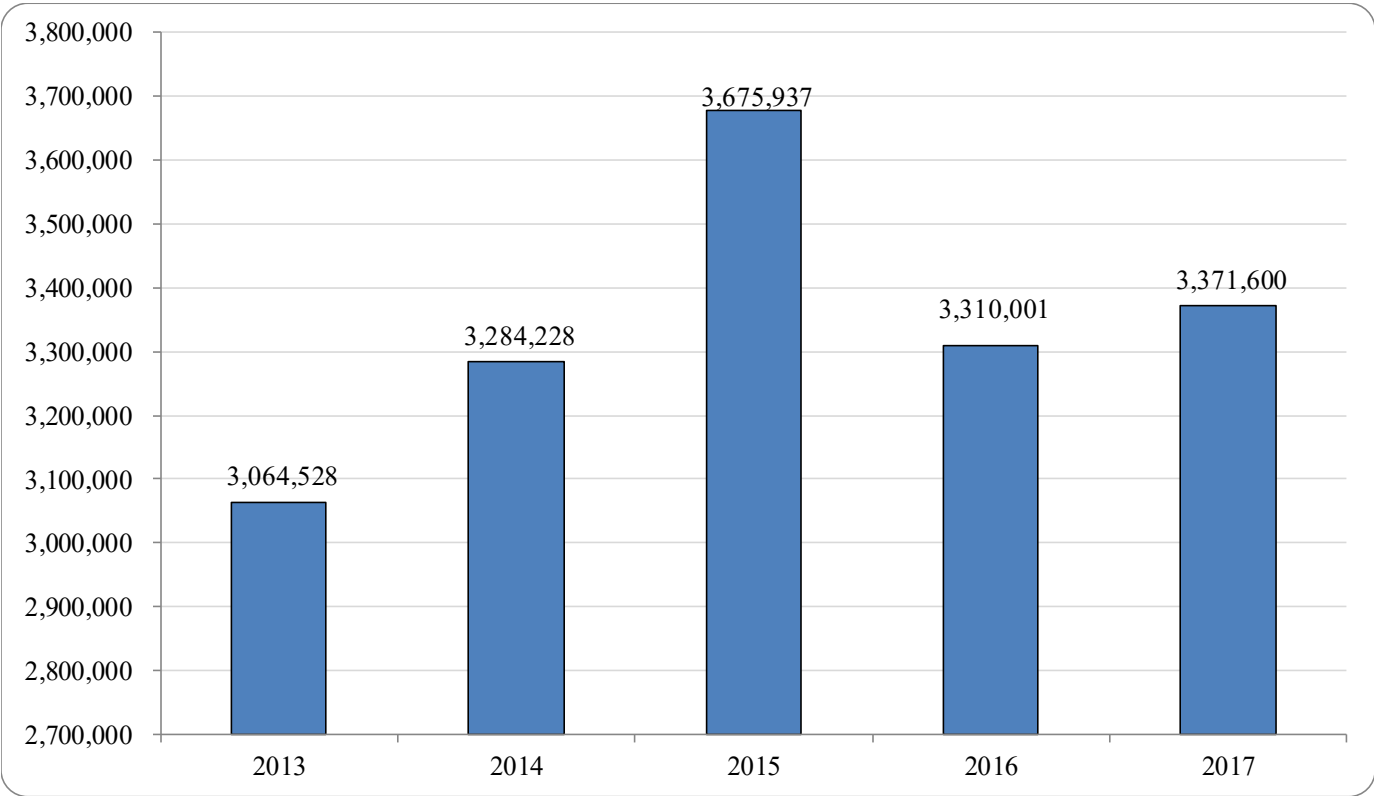
All non-Federal entities that expend \$750,000 or more of Federal awards in a year are required to obtain an annual audit in accordance with the Uniform Guidance. This audit is intended to provide a cost-effective audit in that one audit is conducted in lieu of multiple audits of individual programs. During 2017, the City expended approximately \$4.2 million in Federal awards.

The City received an unmodified opinion on compliance for the major federal award program report.

City of Cologne, Minnesota

Cash and Investments

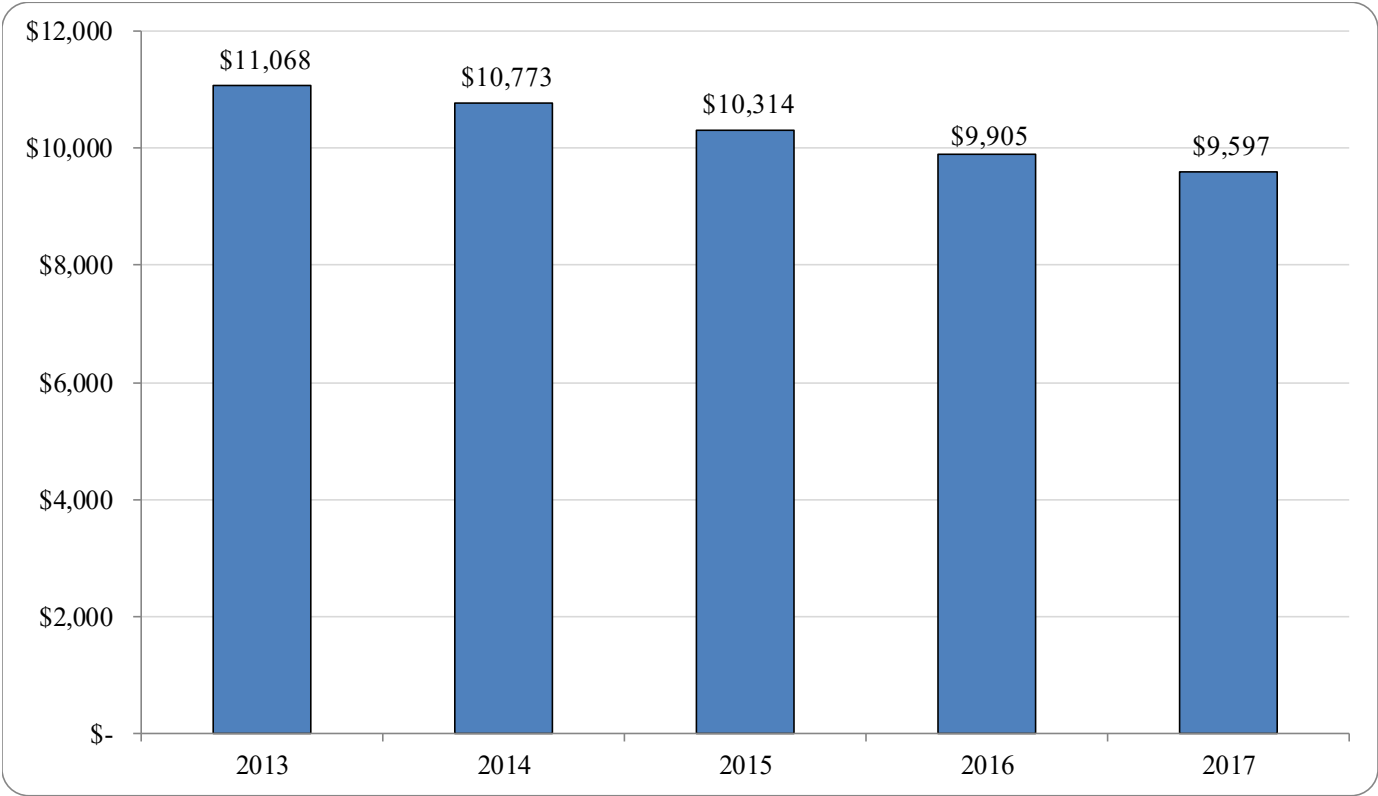
Years Ended December 31, 2013 through December 31, 2017



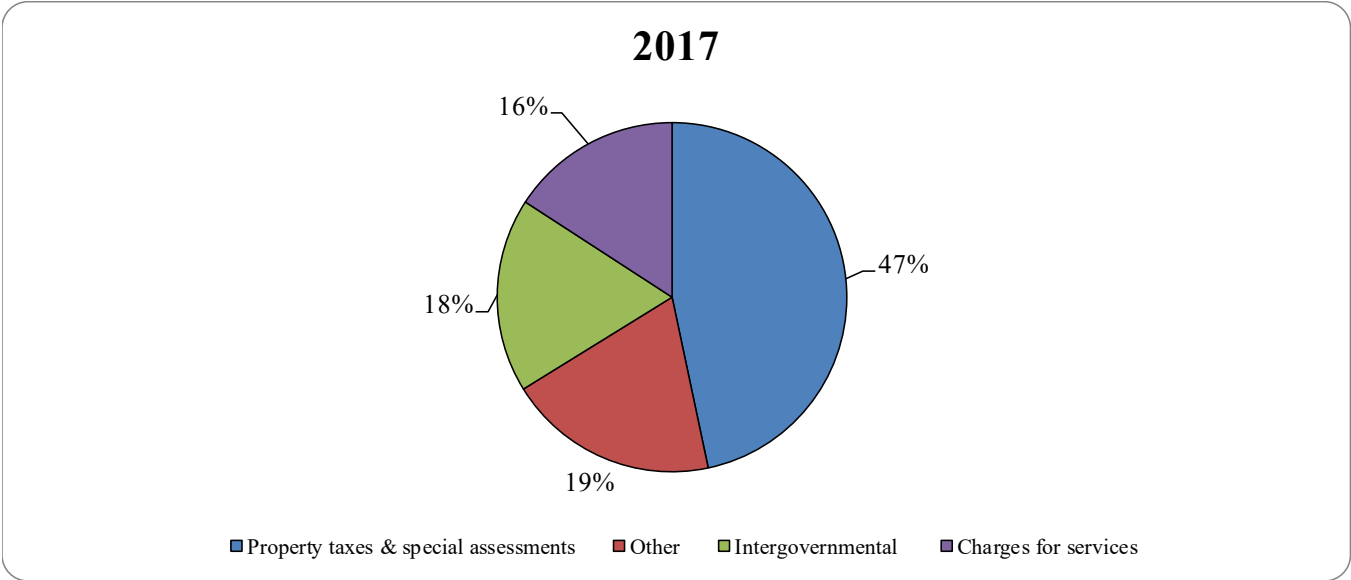
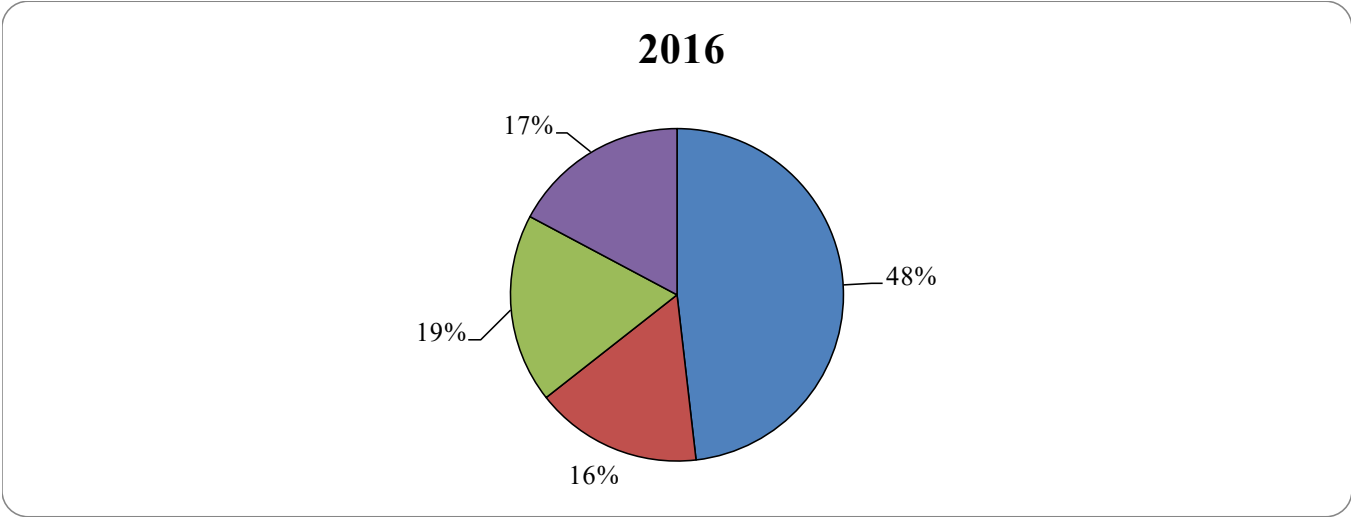
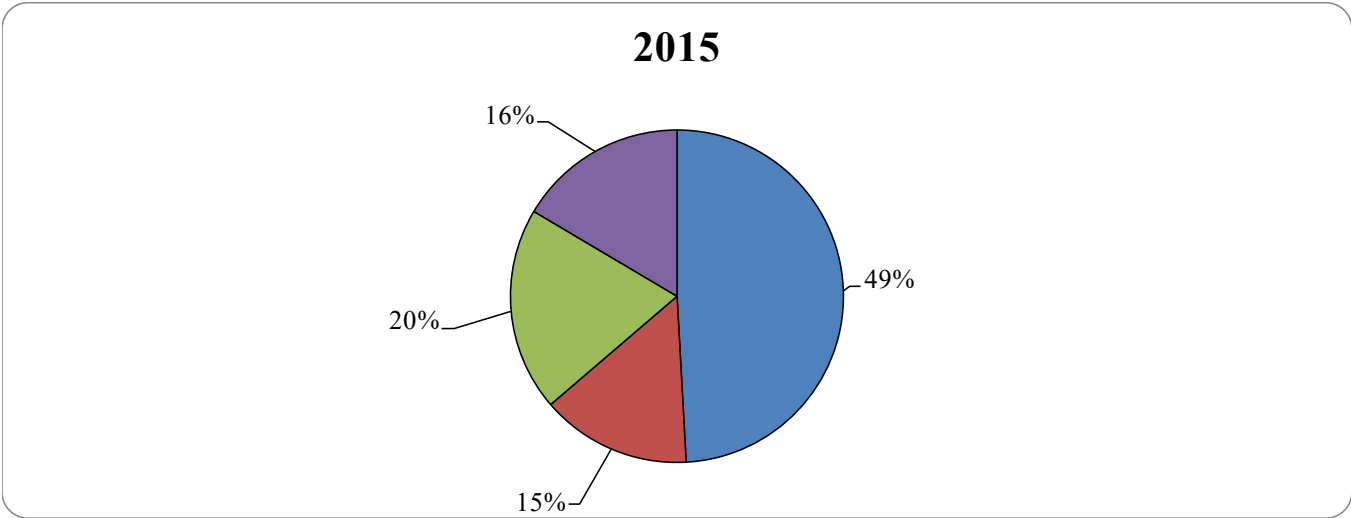
A financial indicator related to debt is the long-term debt to population ratio or debt per capita. When long-term debt compared to population is accelerating, the local government can be overburdened.¹ While increasing debt can be a warning sign; the credit industry recognizes that a low debt burden may not necessarily be a positive credit indicator. Local governments that lag behind in funding vital infrastructure projects such as utilities and streets may have a low long-term debt to population ratio.

The formula for calculating long-term debt to population is:

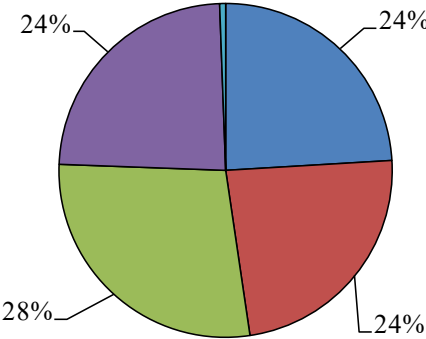
$$\frac{\text{Long-Term Debt}}{\text{Population}}$$



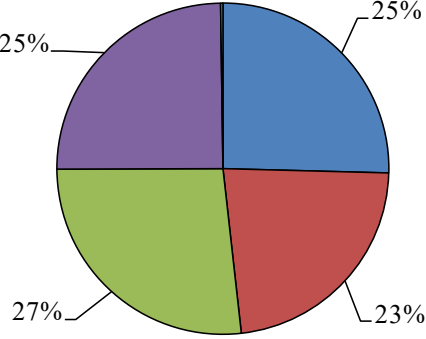
¹ *Evaluating Financial Condition: a Handbook for Local Governments*, page 79



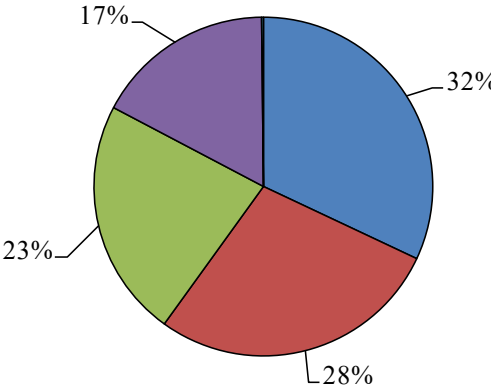
2015



2016



2017



■ Public safety ■ Highways and streets ■ General government ■ Culture and recreation ■ Miscellaneous

City of Cologne, Minnesota
 Budget to Actual – General Fund
 Year Ended December 31, 2017

	Original and Final Budget	Actual	Variance With Final Budget
Revenues			
Property taxes	\$ 715,192	\$ 707,445	\$ (7,747)
Intergovernmental	233,971	272,857	38,886
Charges for services	190,395	239,865	49,470
Interest earnings	6,500	15,543	9,043
Other	102,165	279,957	177,792
Total revenues	1,248,223	1,515,667	267,444
			21.4%
			Positive
Expenditures			
General government	285,562	329,113	(43,551)
Public safety	365,603	460,175	(94,572)
Public works	413,812	401,886	11,926
Culture and recreation	173,746	246,038	(72,292)
Miscellaneous	5,000	2,443	2,557
Total expenditures	1,243,723	1,439,655	(195,932)
			-15.8%
			Negative
Excess (Deficiency) of Revenue Over (Under) Expenditures	\$ 4,500	76,012	\$ 71,512
Fund Balances - Beginning of year		2,244,042	
Fund Balance - End of year		\$ 2,320,054	

Fund balance is the cumulative difference between fund assets and fund liabilities. Fund balance is further divided into nonspendable, restricted, committed, assigned, and unassigned categories. Nonspendable fund balance represents amounts that cannot be spent because they are not in spendable form, such as inventory and prepaid expenses. Restricted fund balance is legally restricted and cannot be appropriated for other spending. Committed fund balance is intended for a specific activity and imposed by formal action of the city council but is not legally restricted. Assigned fund balance is also intended for a specific activity by city council designated individuals but is also not legally restricted. Unassigned fund balance can be thought of as reserves or a “rainy day” fund.

A positive fund balance:

- Contributes to a favorable bond rating
- Produces investment income
- Provides a source of working capital to meet cash flow needs
- Offers a cushion for unexpected expenditures or revenue shortfalls

The Government Finance Officers Association (GFOA) encourages local governments to adopt a policy on the fund balance in the general fund such that the unrestricted portion of fund balance is maintained at no less than 5 to 15 percent.²

The State of Minnesota Office of the State Auditor (OSA) recommends that at year-end local governments maintain an unrestricted fund balance in their general fund and special revenue funds of approximately 35 to 50 percent of fund operating revenues or no less than five months of operating expenditures.³

It is important to note that the two recommendations above are assuming the local government reports on a full accrual method of accounting. Because the City uses the modified accrual method of accounting, interpretations may not be the same.

The City has adopted a policy to maintain an unrestricted fund balance in the General Fund of an amount not less than 50% of the current year expenditures.⁴

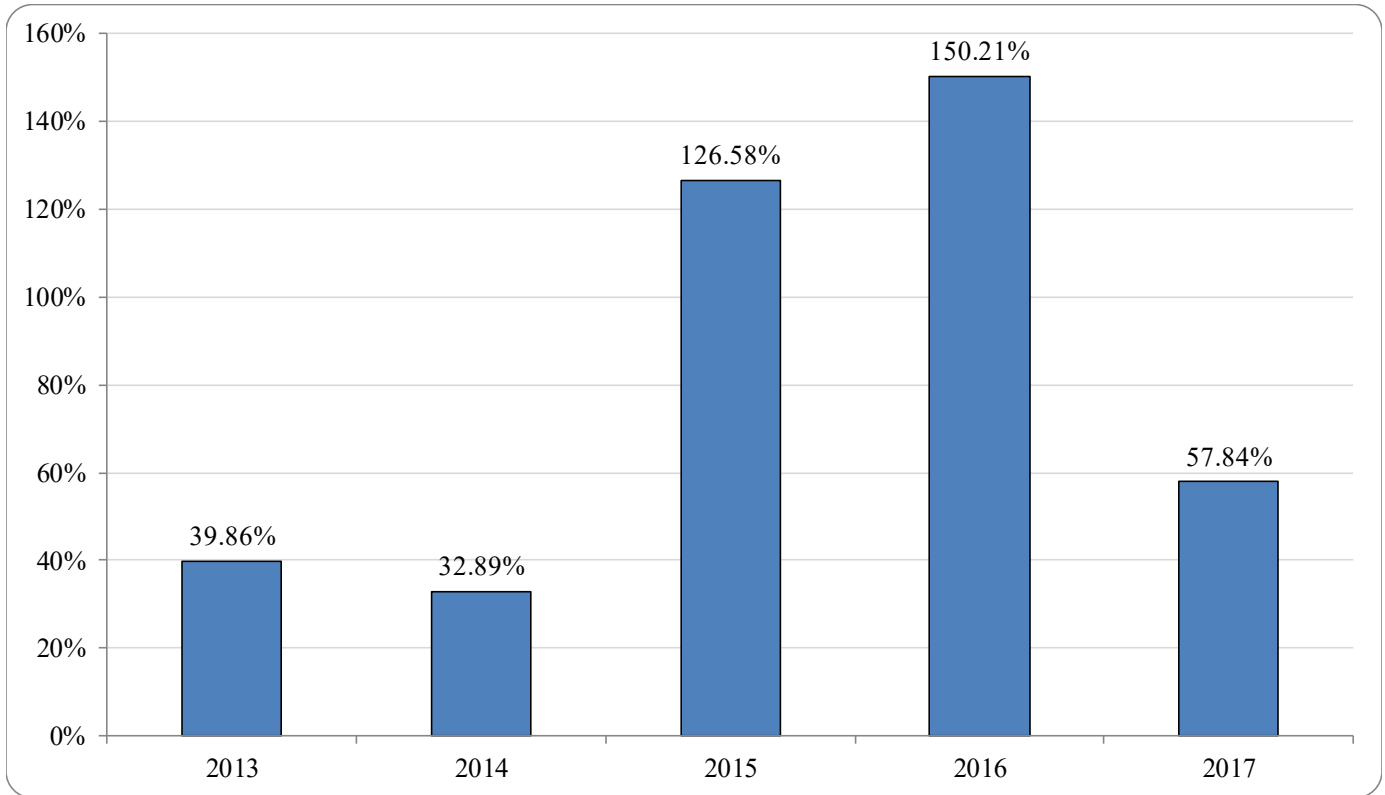
² *Appropriate Level of Unreserved Fund Balance in the General Fund*, GFOA Best Practice, 2009

³ *Statement of Position, Fund Balance for Local Governments*, OSA recommended practice, 2012

⁴ *City of Cologne’s GASB 54 Fund Balance Policy, Reviewed annually by the City Council*

City of Cologne, Minnesota
 General Fund Unrestricted Fund Balance
 Years Ended December 31, 2013 through December 31, 2017

The City's unrestricted fund balance as a percentage of disbursements in the General Operations Department for the last five years is as follows:



The actual amount of unrestricted fund balance in the General Fund was:

2013	2014	2015	2016	2017
\$ 424,852	\$ 465,757	\$ 1,458,206	\$ 1,644,542	\$ 832,672

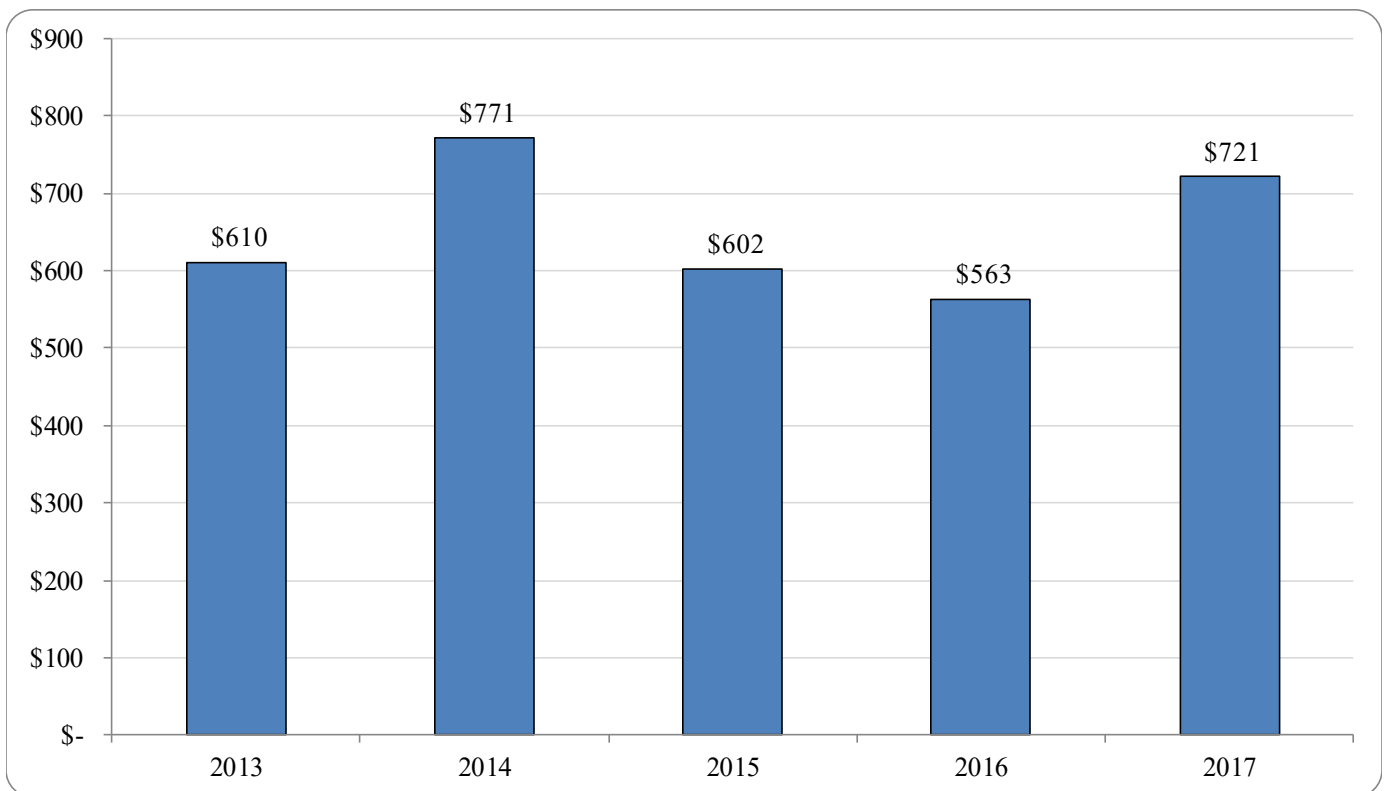
Calculating the operating expenditures of the City’s general operations department relative to changes in population is a commonly used financial indicator. If the cost of providing services is rising faster than the population, this may be an indicator of inefficiency or decreased productivity. Any calculation should take into account the effects of inflation. By using constant dollars, we attempted to account for inflation. When presenting financial analysis using constant dollars, we used the price index produced by the federal government called the *implicit price deflator for state and local government purchases of goods and services*. The implicit price deflator is favored by many analysts because it focuses more on the goods and services purchased by municipalities. Information on the implicit price deflator was found on the United States Department of Commerce, Bureau of Economic Analysis web site, www.bea.gov. A disadvantage of this index is that it compares price changes on a national level only. Prices may vary across the country. Additionally, increased services provided by the local government can affect this ratio.

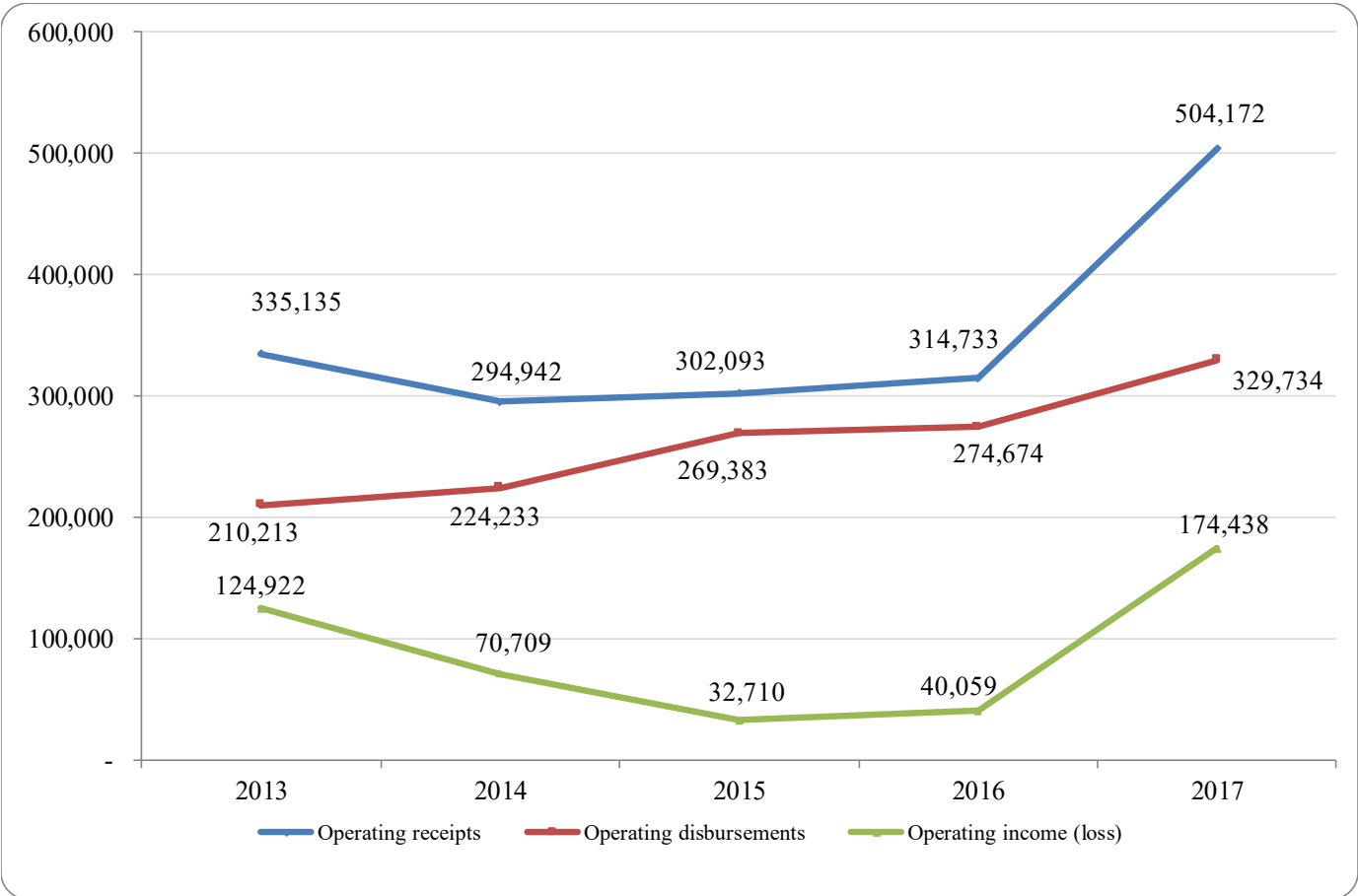
Operating expenditures are used to calculate this ratio because capital expenditures, such as buildings and heavy equipment, can fluctuate tremendously and make trend analysis difficult.

The formula for calculating operating expenditures per capita is:

$$\frac{\text{Operating expenditures (constant dollars)}}{\text{Population}}$$

A warning trend would be increasing operating expenditures per capita that are not explainable by inflation or increased services. The operating expenditures per capita in the general operations department, adjusted for inflation, are as follows:



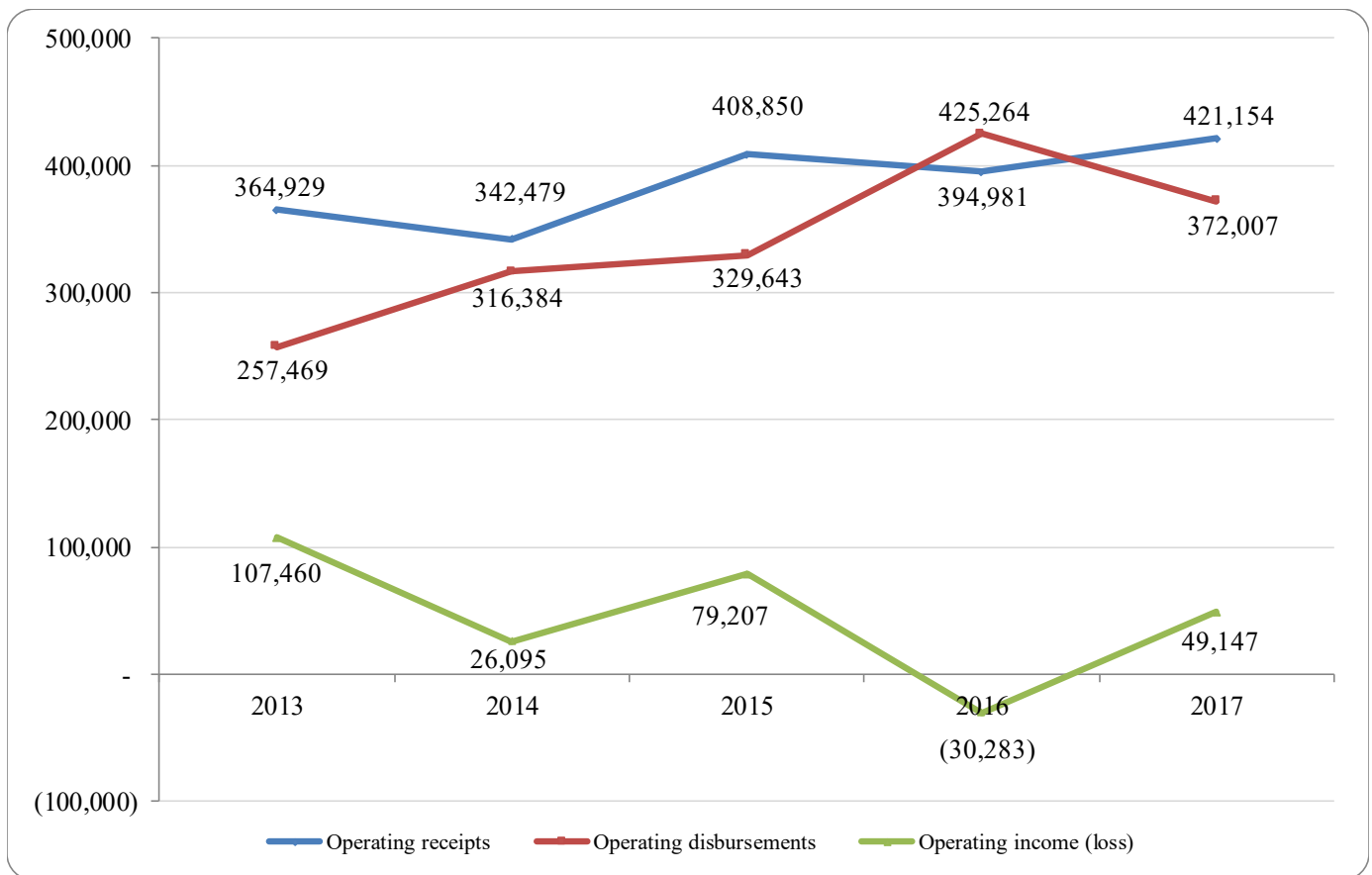


Operating receipts consist of charges for services.

Operating disbursements consist of providing water and other miscellaneous expenses.

Operating income (loss) is the difference between receipts and disbursements.

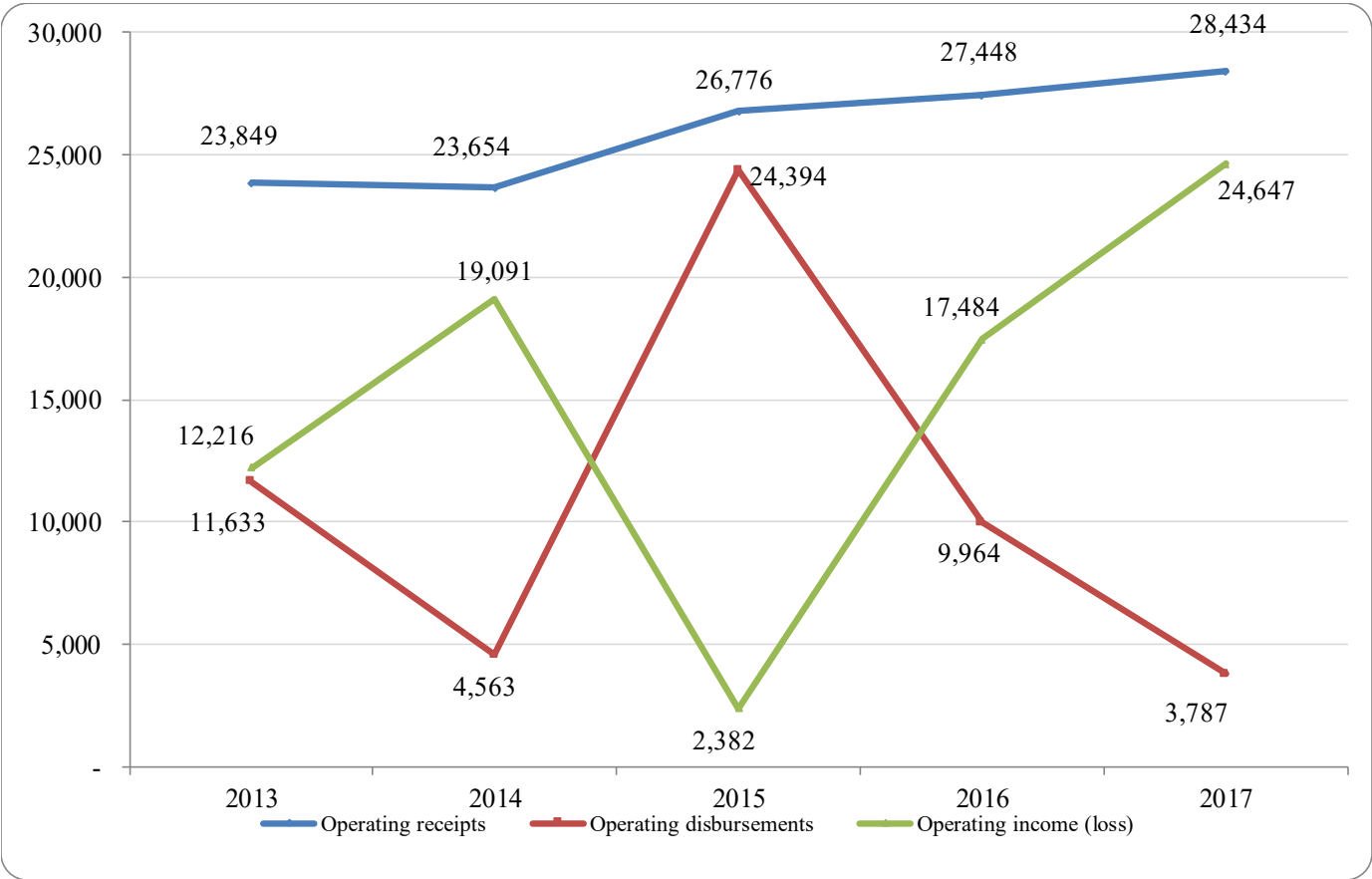
City of Cologne, Minnesota
Sanitary Sewer Fund
Years Ended December 31, 2013 through December 31, 2017



Operating receipts consist of charges for services.

Operating disbursements consist of sewer operations, sewer treatment, sewer administration, and other miscellaneous expenses.

Operating income (loss) is the difference between receipts and disbursements.



Operating receipts consist of charges for services.

Operating disbursements consist of storm sewer operations, storm sewer administration, and other miscellaneous expenses.

Operating income (loss) is the difference between receipts and disbursements.