

**CITY OF OAK PARK HEIGHTS, MINNESOTA**

**AUDIT MANAGEMENT LETTER**

December 31, 2015

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To the Honorable Mayor and  
Members of the City Council  
City of Oak Park Heights, Minnesota

We have completed the 2015 audit of the City of Oak Park Heights, Minnesota and have issued our report thereon. Our Independent Auditor's Report is included in the City's Annual Financial Report.

This 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

April 19, 2016

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**Report Summary**

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

<b>Report Name</b>	<b>Elements of Report</b>	<b>Overview</b>
<i>Annual Financial Report (AFR)</i>	<ul style="list-style-type: none"><li>• Financial statements</li><li>• Footnotes</li><li>• Required supplementary information</li><li>• Statistical information</li></ul>	<ul style="list-style-type: none"><li>• Unmodified (“clean”) opinion on the Financial Statements</li></ul>
<i>Report on Internal Control and on Compliance and Other Matters</i>	<i>Results of testing</i> <ul style="list-style-type: none"><li>• Internal controls over financial reporting</li><li>• Compliance with laws, regulations, contracts and grants</li></ul>	<ul style="list-style-type: none"><li>• No findings of noncompliance</li><li>• Internal control finding resulting in a prior period adjustment.</li></ul>
<i>State Legal Compliance Report</i>	<ul style="list-style-type: none"><li>• Results of testing certain provisions of Minnesota Statutes</li></ul>	<ul style="list-style-type: none"><li>• No findings of noncompliance</li></ul>
<i>Audit Management Letter</i>	<i>Intended to be a working tool for City Council</i> <ul style="list-style-type: none"><li>• Comparisons and trend analysis</li><li>• Outside factors influencing City financial reporting</li><li>• Policies and procedures</li></ul>	

**ANALYSIS OF SELECTED ACCOUNTS**

**Summary of Financial Activity**

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

	Fund	Revenue and Other Sources	Expenditures and Other Uses	Transfers (Net)	Increase (Decrease) in Fund Balance/ Net Position	Fund Balance/ Net Position 12/31/15
1	<b>General</b>	\$5,732,281	\$3,474,680	(\$1,527,875)	\$729,726	\$4,632,533
	<b>Special Revenue Funds:</b>					
2	Forfeiture and Seizure	2,754	9,962	3,000	(4,208)	9,096
3	Economic Development	1,233	-	-	1,233	33,252
4	TIF District #1	184,590	148,109	-	36,481	86,341
5	TIF District #2	1,013	29,790	-	(28,777)	(406,043)
	<b>Debt Service Funds:</b>					
6	Bonds of 2008	921	430,417	430,000	504	95,999
7	Bonds of 2009	327	140,858	140,000	(531)	19,741
8	G.O. CIP Refunding Bonds of 2012A	29,799	104,758	-	(74,959)	4,941,725
9	Bonds of 2014	742,248	250,100	411,314	903,462	1,164,719
	<b>Capital Project Funds:</b>					
10	Capital Revolving	9,648	79,199	-	(69,551)	26,189
11	Budgeted Projects and Equipment Revolving	19,848	152,565	593,842	461,125	2,422,997
12	Street Reconstruction	145,626	3,947,411	93,386	(3,708,399)	1,682,041
13	City Hall Improvements	701	5,814	-	(5,113)	92,799
14	Park Development	4,791	3,000	-	1,791	661,464
15	Moelter Park	5,302	20,186	(97,100)	(111,984)	396,237
16	Renewal and Replacement	22,214	26,058	179,929	176,085	3,204,223
17	Storm Sewer Renewal/Replacement	973	-	263,800	264,773	440,719
18	Sanitary Sewer Connection	33,821	-	-	33,821	454,428
19	Water Connection	163,163	-	-	163,163	612,759
20	Storm Sewer Connection	31,951	-	-	31,951	999,175
21	Water Tower Rehabilitation	49,031	73	40,479	89,437	368,605
22	Well Rehabilitation	949	14,736	9,006	(4,781)	127,719
23	Sewer Rehabilitation	367	-	1,938	2,305	53,177
	<b>Enterprise Funds:</b>					
24	Water	1,976,983	491,730	(363,544)	1,121,709	6,522,729
25	Sanitary Sewer	1,250,559	744,554	(174,442)	331,563	3,294,614
26	Storm Sewer	84,413	59,951	(3,733)	20,729	177,004
27	<b>Total</b>	\$10,495,506	\$10,133,951	\$0	\$361,555	\$32,114,242

**Property Taxes**

A summary of property tax activity for the past five years is as follows:

	2011	2012	2013	2014	2015
Tax levy certified	\$3,964,704	\$4,228,062	\$4,538,193	\$4,784,896	\$5,022,731
Plus excess tax increment	-	1,862	11,238	19,063	22,148
Less market value homestead credit deduction	(93,934)	-	-	-	-
Net levy	<u>3,870,770</u>	<u>4,229,924</u>	<u>4,549,431</u>	<u>4,803,959</u>	<u>5,044,879</u>
Receipts:					
Current property taxes	3,819,220	4,176,125	4,515,202	4,730,342	5,029,814
Delinquent property taxes	92,269	5,820	33,252	(176,758)	(6,734)
Total receipts	<u>3,911,489</u>	<u>4,181,945</u>	<u>4,548,454</u>	<u>4,553,584</u>	<u>5,023,080</u>
Adjustments	(9,361)	(30,356)	-	(\$289,042)	(\$21,976)
Increase (decrease) in delinquent taxes receivable	(50,080)	17,623	977	(38,667)	(177)
Delinquent taxes - January 1	<u>132,814</u>	<u>82,734</u>	<u>100,357</u>	<u>101,334</u>	<u>62,667</u>
Delinquent taxes - December 31	<u>\$82,734</u>	<u>\$100,357</u>	<u>\$101,334</u>	<u>\$62,667</u>	<u>\$62,490</u>
Current collection as a percent of current levy	<u>98.7%</u>	<u>98.7%</u>	<u>99.2%</u>	<u>98.5%</u>	<u>99.7%</u>
Total collections as a percent of current levy	<u>101.1%</u>	<u>98.9%</u>	<u>100.0%</u>	<u>94.8%</u>	<u>99.6%</u>

The City has experienced property tax abatements for the past two years. These abatements reduced property revenue as follows:

	2015	2014
Current and delinquent tax collections	\$5,053,681	\$4,836,243
Payment in lieu of tax	73,251	73,245
Non-levy collections	-	75
Reduction for property tax abatements	(21,976)	(289,042)
Total property tax revenue reported in the financial statements	<u>\$5,104,956</u>	<u>\$4,620,521</u>

**Tax Levies, Tax Rates and Tax Capacity**

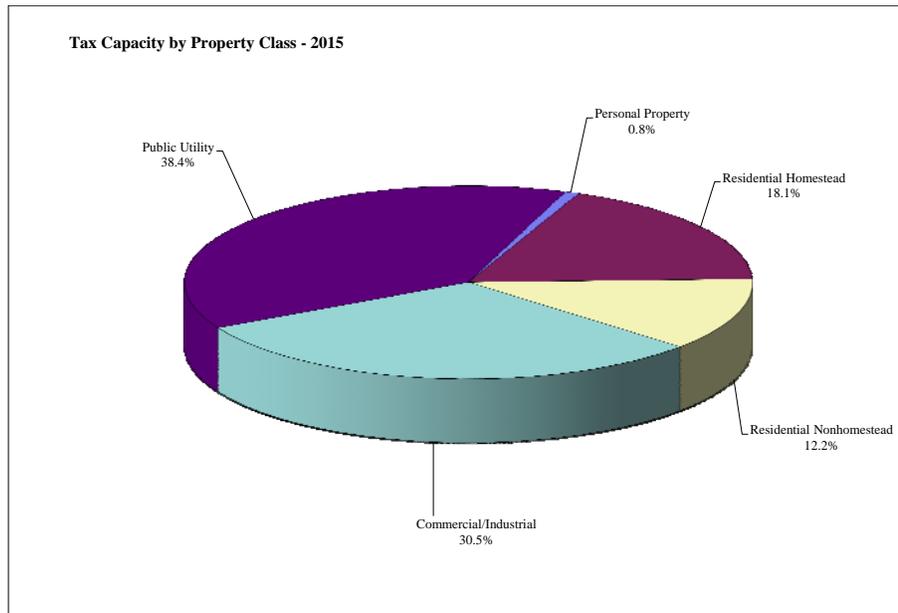
A comparison of values for taxes payable in 2012 through 2016 is as follows:

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Taxable market value	<u>\$643,608,300</u>	<u>\$663,496,300</u>	<u>\$640,880,000</u>	<u>\$689,680,000</u>	<u>\$710,998,000</u>
Tax capacity values:					
Real estate	\$10,095,639	\$10,257,139	\$10,165,672	\$10,715,786	\$10,998,502
Personal property	90,840	95,168	95,590	89,896	93,894
Subtotal	<u>10,186,479</u>	<u>10,352,307</u>	<u>10,261,262</u>	<u>10,805,682</u>	<u>11,092,396</u>
Tax increment	-	(108,254)	(126,677)	(185,870)	(187,904)
Fiscal disparity contribution	(2,336,411)	(2,346,765)	(2,467,230)	(2,214,196)	(2,292,994)
Fiscal disparity distribution	<u>405,806</u>	<u>392,002</u>	<u>386,218</u>	<u>415,839</u>	<u>388,319</u>
Total	<u>\$8,255,874</u>	<u>\$8,289,290</u>	<u>\$8,053,573</u>	<u>\$8,821,455</u>	<u>\$8,999,817</u>
Tax capacity rates	<u>51.710</u>	<u>54.898</u>	<u>59.400</u>	<u>56.803</u>	<u>57.725</u>
Tax levy	<u>\$4,228,062</u>	<u>\$4,538,193</u>	<u>\$4,784,896</u>	<u>\$5,022,731</u>	<u>\$5,191,593</u>

A schedule of tax capacity by classification is as follows:

<b>CITY OF OAK PARK HEIGHTS</b>				
	2014		2015	
	Amount	Percent of City Total	Amount	Percent of City Total
<b>Real estate:</b>				
Agricultural	\$1,069	0.0%	\$1,172	0.0%
Seasonal	1,235	0.0%	1,520	0.0%
Residential homestead	1,660,302	16.2%	1,954,154	18.1%
Residential nonhomestead	1,173,278	11.4%	1,324,775	12.2%
Commercial/industrial	3,418,902	33.3%	3,280,232	30.4%
Public utility	3,904,920	38.1%	4,148,063	38.4%
Railroad	5,966	0.1%	5,870	0.1%
<b>Total real estate</b>	<b>10,165,672</b>	<b>99.1%</b>	<b>10,715,786</b>	<b>99.2%</b>
<b>Personal property</b>	<b>95,590</b>	<b>0.9%</b>	<b>89,896</b>	<b>0.8%</b>
<b>Total tax capacity</b>	<b>\$10,261,262</b>	<b>100.0%</b>	<b>\$10,805,682</b>	<b>100.0%</b>

As shown above, the City's major tax payer (Xcel Energy) is 38.40% of total tax capacity.

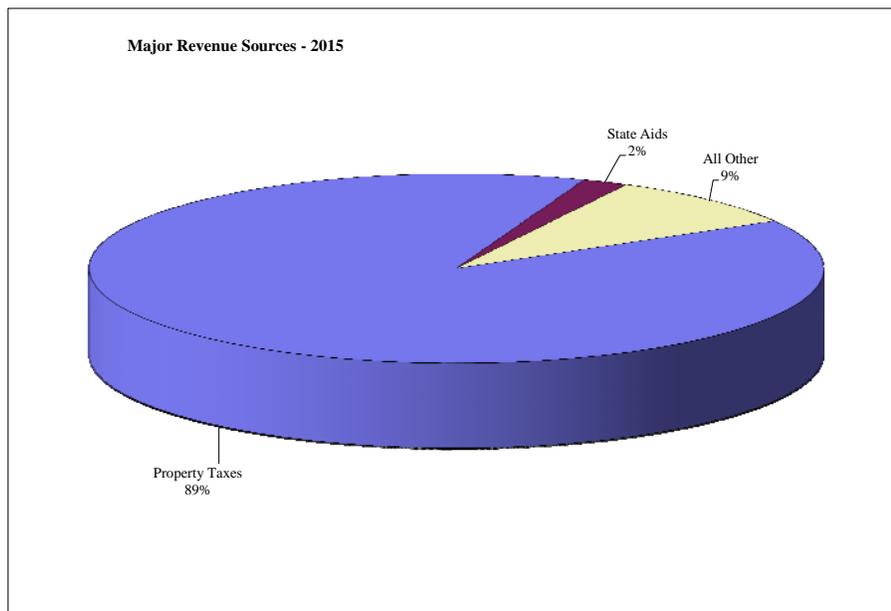


**GENERAL FUND**

The General Fund of the City is maintained to account for expenditures common to all cities (general government, public safety, public works, and parks and recreation). A ten-year history of major revenue sources that support the General Fund are as follows:

Year	Property Taxes <sup>(1)</sup>		State Aids		All Other		Total Revenue	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
2006	\$2,423,246	77%	\$92,370	3%	\$633,057	20%	\$3,148,673	100%
2007	2,687,730	79%	181,233	5%	547,531	16%	3,416,494	100%
2008	3,156,807	82%	120,701	3%	592,538	15%	3,870,046	100%
2009	3,134,378	82%	249,822	7%	439,143	11%	3,823,343	100%
2010	3,305,004	79%	180,174	4%	673,969	17%	4,159,147	100%
2011	3,583,487	87%	75,860	2%	468,768	11%	4,128,115	100%
2012	4,245,360	90%	69,677	1%	423,580	9%	4,738,617	100%
2013	4,433,202	90%	86,775	2%	388,469	8%	4,908,446	100%
2014	4,620,521	89%	79,354	2%	481,640	9%	5,181,515	100%
2015	5,104,956	89%	135,133	2%	492,192	9%	5,732,281	100%

<sup>(1)</sup> Since 2010, the General Fund has levied property taxes which have been transferred out to Debt Service Funds. Those levies were \$608,000, \$559,000, and \$548,000 for the years ended December 31, 2015, 2014, and 2013, respectively.

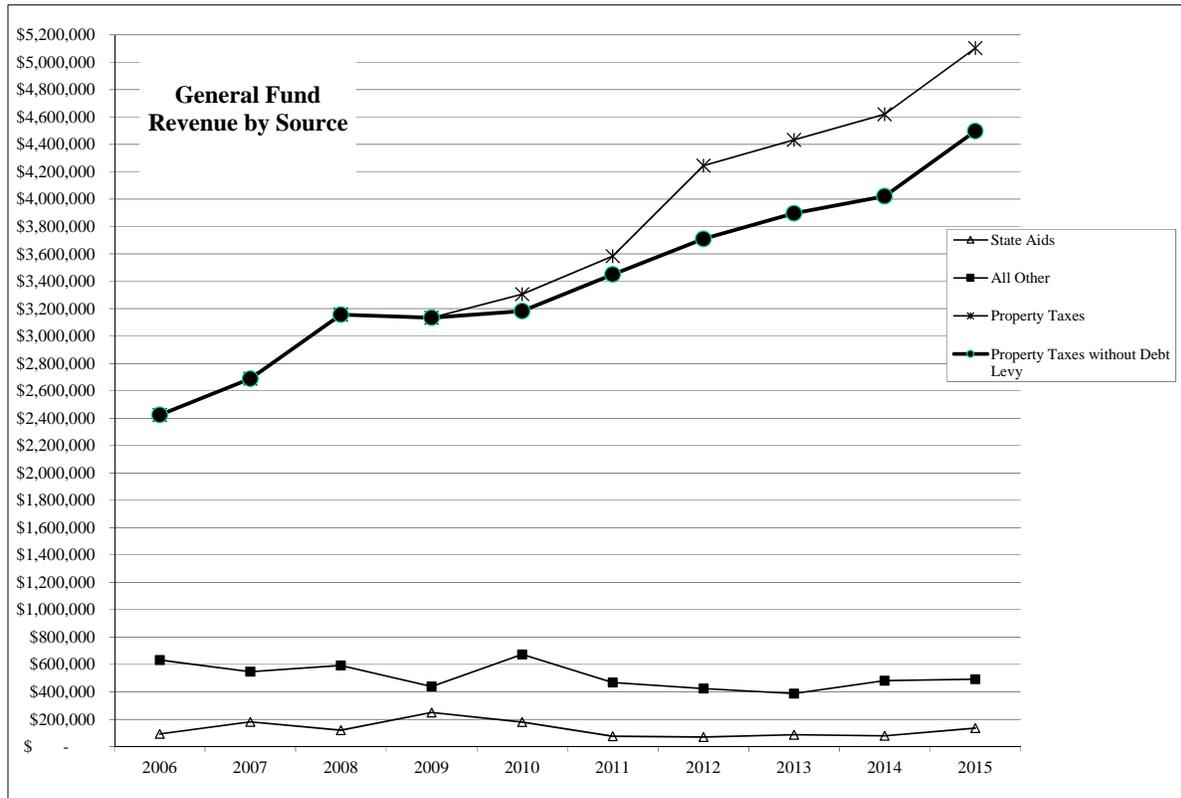


# City of Oak Park Heights, Minnesota

## Audit Management Letter

General Fund

A graph of property taxes, state aids, and other revenue for the General Fund is as follows:



### State Aids

State aids of the General Fund have consisted of the following for the past seven years:

State Aid	2009	2010	2011	2012	2013	2014	2015
Market value homestead credit	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
LGA	-	-	-	-	-	-	-
Police aid	69,392	58,930	63,278	61,242	70,031	76,839	78,435
Utility valuation transition aid	178,390	102,947	-	-	-	-	-
Small cities grant	-	-	-	-	-	-	54,188
Other state revenue	2,040	18,297	12,582	8,435	16,744	2,515	2,510
<b>Totals</b>	<b>\$249,822</b>	<b>\$180,174</b>	<b>\$75,860</b>	<b>\$69,677</b>	<b>\$86,775</b>	<b>\$79,354</b>	<b>\$135,133</b>
<b>Change</b>		<b>(\$69,648)</b>	<b>(\$104,314)</b>	<b>(\$6,183)</b>	<b>\$17,098</b>	<b>(\$7,421)</b>	<b>\$55,779</b>
<b>% Change</b>		<b>(28%)</b>	<b>(58%)</b>	<b>(8%)</b>	<b>25%</b>	<b>(9%)</b>	<b>70%</b>

**Other General Fund Revenue**

Other revenue of the General Fund has consisted of the following for the past seven years:

Description	2009	2010	2011	2012	2013	2014	2015
Licenses and permits	\$100,074	\$197,181	\$131,081	\$163,986	\$90,910	\$137,543	\$125,704
Charges for services:							
Enterprise <sup>(1)</sup>	64,400	66,420	69,425	3,830	4,180	4,248	4,242
Other	9,890	77,386	18,127	13,698	300,223	80,618	144,399
Fines and forfeits	70,102	58,365	57,862	55,023	51,360	56,537	64,515
Earnings on investments <sup>(2)</sup>	55,439	50,675	41,378	36,791	(23,982)	73,412	18,621
Other <sup>(3)</sup>	139,238	223,942	150,895	140,940	135,864	105,353	112,930
Total	<u>\$439,143</u>	<u>\$673,969</u>	<u>\$468,768</u>	<u>\$414,268</u>	<u>\$558,555</u>	<u>\$457,711</u>	<u>\$470,411</u>

<sup>(1)</sup> Beginning in 2012, an administrative fee is charged only to the Storm Sewer Fund. As a result, the transfers from Water and Sewer to the Renewal and Replacement Fund were increased \$64,047. Transfers were made in 2014 that were similar to 2013 and 2012.

<sup>(2)</sup> Earnings on investments is negative in 2013 due to a market value adjustment. Although the City holds its investments to maturity and will receive par value at maturity, accounting standards require the City to report its investments at market value at year-end. The change in market value for 2013 resulted in an adjustment of \$185,738.

<sup>(3)</sup> The significant increase in other charges for services from 2012 to 2013 occurred because the City received a \$207,600 closing fee when Presbyterian Homes refinanced their conduit debt agreement

**Budget Versus Actual Comparison**

The General Fund balance increased by \$729,000. Charges for services revenue exceeding budget resulted in higher than anticipated revenue. Expenditures in most City departments were also less than budgeted. A summary is as follows:

	2015		Favorable (Unfavorable) Variance
	Budget	Actual	
Revenue:			
General property taxes:			
Current and delinquent	\$5,022,731	\$5,053,681	\$30,950
Abatement of proptery taxes	-	(21,976)	(21,976)
Payment in lieu of taxes	70,000	73,251	3,251
Total general property taxes	5,092,731	5,104,956	12,225
Intergovernmental	83,040	156,909	73,869
Licenses and permits	51,830	125,704	73,874
Charges for services	54,398	148,641	94,243
Fines and forfeits	45,000	64,515	19,515
Earnings on investments	-	18,621	18,621
Refunds and reimbursements	75,000	108,385	33,385
Donations and contributions	-	4,550	4,550
Other	-	-	-
Total revenue	5,401,999	5,732,281	330,282

# City of Oak Park Heights, Minnesota

## Audit Management Letter

*General Fund*

	2015		Favorable (Unfavorable) Variance
	Budget	Actual	
Expenditures:			
General government:			
Mayor and council	\$103,055	\$89,489	\$13,566
City administration	281,735	278,968	2,767
Legal	30,000	44,881	(14,881)
General management and building	176,260	142,858	33,402
Elections	1,300	1,456	(156)
Finance	277,308	180,336	96,972
Computer system	44,100	36,726	7,374
Audit	29,500	30,555	(1,055)
Insurance	380,192	354,939	25,253
Assessing	23,500	22,716	784
Planning and zoning	32,000	35,035	(3,035)
Engineering	27,850	24,310	3,540
General contingency	16,883	8,229	8,654
Total general government	<u>1,423,683</u>	<u>1,250,498</u>	<u>173,185</u>
Public safety:			
Police department	1,322,576	1,282,768	39,808
Building inspections	107,284	98,576	8,708
Fire protection	230,238	227,147	3,091
Civil defense	3,600	975	2,625
Animal control	1,650	1,365	285
Capital outlay	-	-	-
Total public safety	<u>1,665,348</u>	<u>1,610,831</u>	<u>54,517</u>
Public works:			
Street maintenance	81,375	64,567	16,808
Snow removal	202,000	79,726	122,274
Sanitation	203,650	199,771	3,879
Street lighting	76,000	66,935	9,065
Arborist	18,900	12,535	6,365
Tree removal and planting	35,000	35,473	(473)
Total public works	<u>616,925</u>	<u>459,007</u>	<u>157,918</u>
Recreation:			
Parks, playgrounds and rinks	171,168	154,344	16,824
Total expenditures	<u>3,877,124</u>	<u>3,474,680</u>	<u>402,444</u>
Revenue over expenditures	<u>1,524,875</u>	<u>2,257,601</u>	<u>732,726</u>
Other financing sources (uses):			
Sale of property	-	-	-
Transfers to Debt Service Fund	-	-	-
Transfers to Capital Project Fund	(608,000)	(608,000)	-
Transfers to Enterprise Fund	(916,875)	(916,875)	-
Transfers to Nonmajor Governmental Fund	-	(3,000)	(3,000)
Total other financing sources (uses)	<u>(1,524,875)</u>	<u>(1,527,875)</u>	<u>(3,000)</u>
Net increase (decrease) in fund balance	<u>\$0</u>	<u>\$729,726</u>	<u>\$729,726</u>

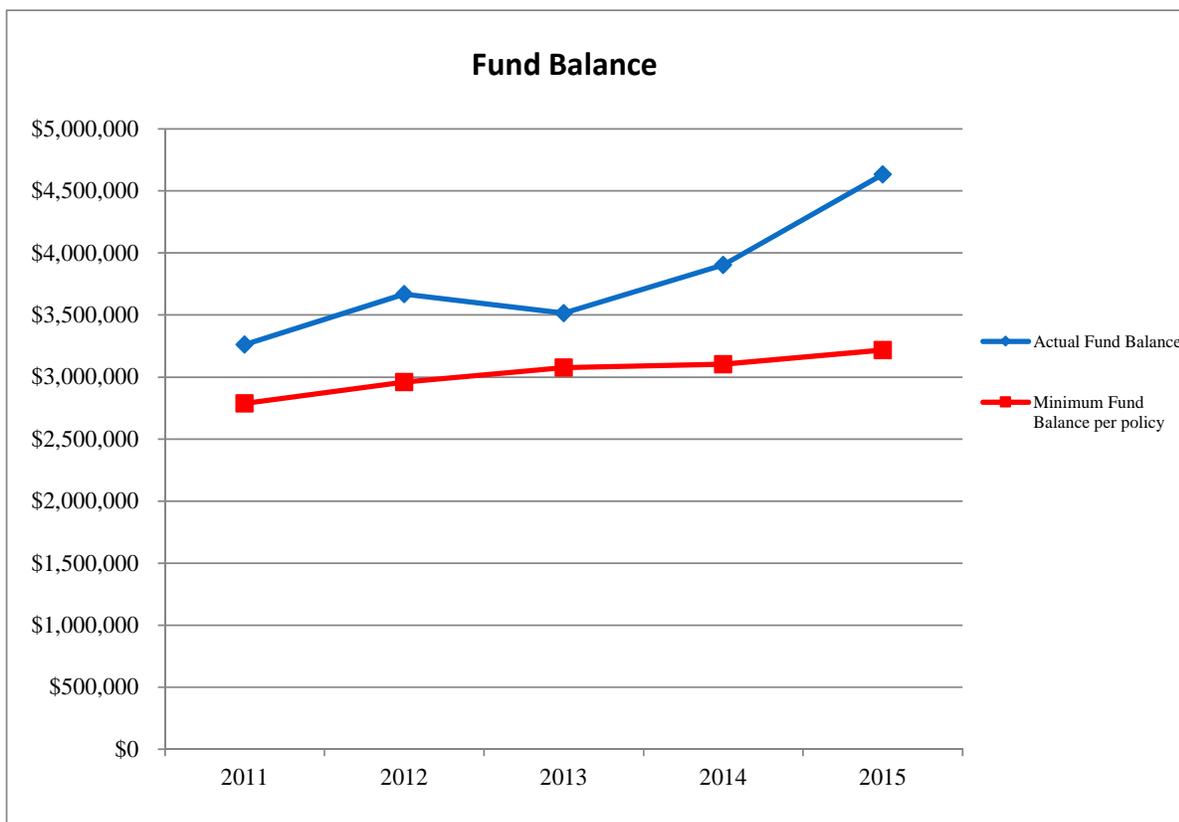
Transfers to other funds for 2015 included the following amounts:

<u>Fund</u>	<u>2015</u>	<u>2014</u>
Street Reconstruction	\$ 353,600	\$ 343,295
Storm Sewer Renewal/Replacement	84,000	81,628
Debt Service - 2008 Bonds	430,000	420,000
Debt Service - 2009 Bonds	140,000	139,000
Debt Service - 2014 Bonds	38,000	-
Budgeted Projects Fund	479,275	359,950
Forfeiture and Seizure Fund	3,000	-
	<u>\$1,527,875</u>	<u>\$1,343,873</u>

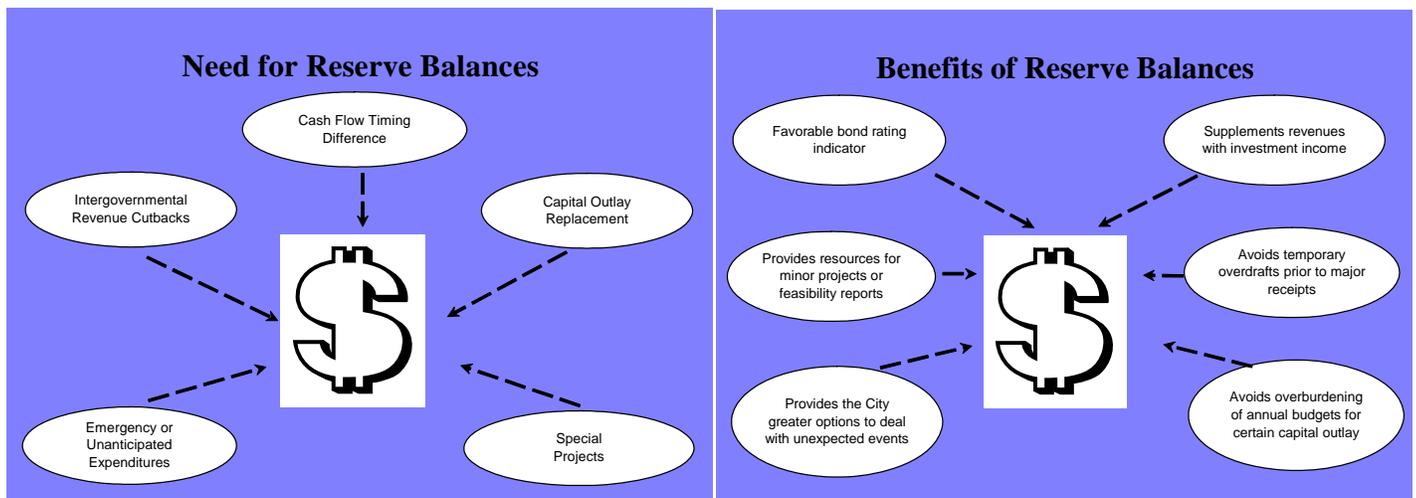
**General Fund Reserves**

The fund balance of the General Fund increased in 2015. The schedule below reflects the General Fund balance for the past five years:

<u>Year Ended December 31,</u>	<u>Fund Balance</u>	<u>Increase (Decrease)</u>
2011	\$3,261,561	\$287,764
2012	3,669,633	408,072
2013	3,514,371	(155,262)
2014	3,902,807	388,436
2015	4,632,533	729,726



Reserve balances are an important component of City financial management. When evaluating the adequacy of reserve balances, there are a number of important factors that must be considered. Several areas to consider are illustrated as follows:



The City's current fund balance policy was adopted on November 15, 2011. The purpose of the policy is to establish appropriate fund balance levels for each fund that is primarily supported by property tax revenues or user fees.

The City's fund balance policy states the City will maintain funds for the following:

- Compensated absences
- Cash flow
- Contingencies

The compensated absences reserve is an amount equal to 50% of accumulated vacation leave and 100% of that portion of sick leave that would be payable under the City's severance pay policy.

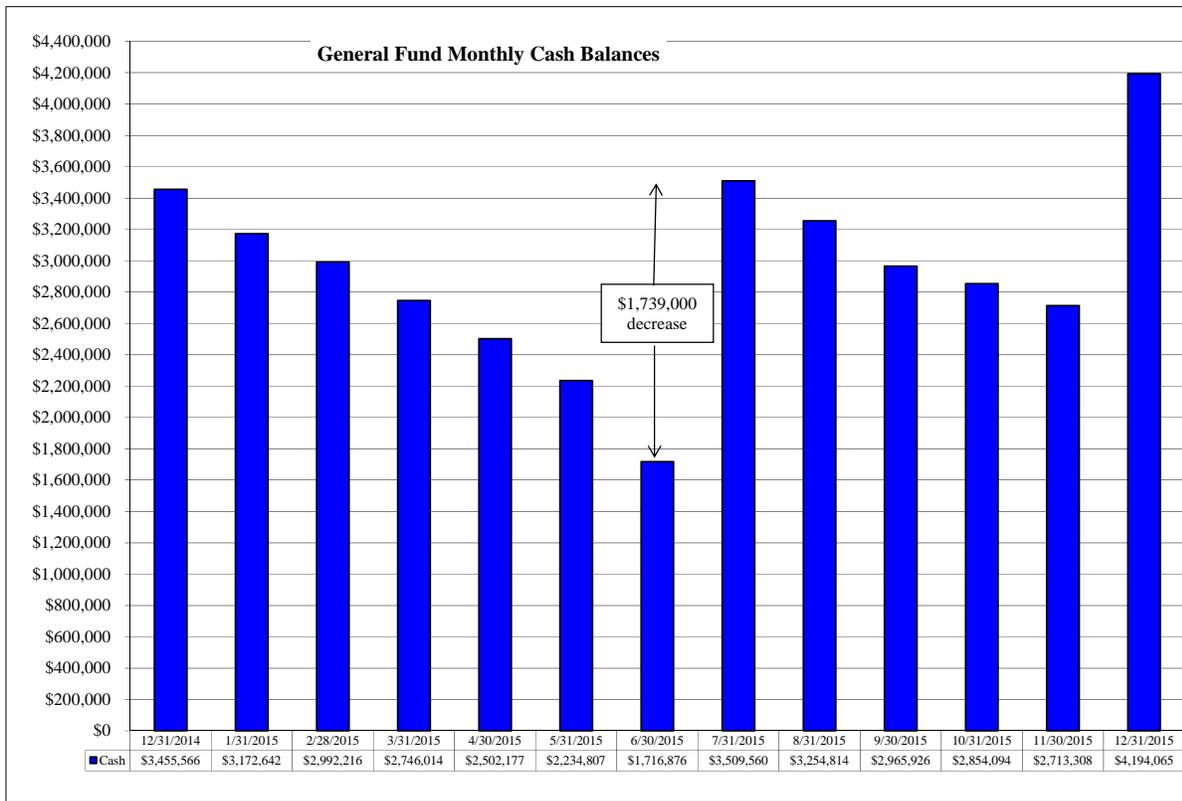
Employee Benefit	December 31,	
	2014	2015
Vacation leave carryover (50%)	\$48,174	\$49,753
Severance	110,423	115,366
Total	<u>\$158,597</u>	<u>\$165,119</u>
Rounded amount		<u>\$165,000</u>

**Cash Flow Reserve**

Property taxes and related state aids have accounted for 80% to 85% of the revenue of the General Fund in recent years. Property taxes and the majority of state aid are not received until July and December of each year (i.e., the second half of the year). As a result, the City is required to have sufficient reserves at the beginning of the year to fund operations of the first half of the year. The City's fund balance policy states that its cash flow reserve should be equal to 45-55% of the subsequent year's budgeted operating expenditures. The recommended cash flow reserve is \$2,370,000, computed as follows:

<b>Cash Flow Reserve</b>	
2016 tax levy	\$5,191,593
Less transfers out which occur after taxes are received	(450,700)
	<u>\$4,740,893</u>
Reserve amount @ 50%	<u>\$2,370,000</u>

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:



As shown above, the cash balance decreased \$1,739,000 between January 1 and June 30, illustrating the need for the cash flow reserve.

**General Contingency Reserve**

The amount of General Fund reserve required to meet emergency and/or unanticipated expenditures is not readily quantifiable. Rather, the level of this requirement must be established by the City based on the history of the City and the philosophy of "adequate" reserve coverage. The City's fund balance policy states this amount should be 10-15% of the subsequent year's General Fund budgeted expenditures, computed as follows:

Description	December 31,	
	2014	2015
Ensuing year's budget	<u>\$5,401,999</u>	<u>\$5,648,560</u>
Reserve amount @ 15%	<u>\$810,000</u>	<u>\$847,000</u>

**General Fund Balance Summary**

In summary, the fund balance of the General Fund at December 31, 2015, was as follows:

<b>General Fund Balance</b>		
<u>Constraint</u>	<u>December 31,</u>	
	<u>2014</u>	<u>2015</u>
Nonspendable:		
Prepaid items	<u>\$80,806</u>	<u>\$57,602</u>
Restricted:		
Small Cities Grant	<u>-</u>	<u>54,188</u>
Assigned for:		
Employee benefits	<u>159,000</u>	<u>165,000</u>
Unassigned:		
Cash flow reserve	2,293,000	2,370,000
General contingency reserve	810,000	847,000
Snow Plow reserve	-	122,272
Remaining balance	<u>560,001</u>	<u>1,016,471</u>
Subtotal - unassigned	<u>3,663,001</u>	<u>4,355,743</u>
 Total fund balance	 <u><u>\$3,902,807</u></u>	 <u><u>\$4,632,533</u></u>

**SPECIAL REVENUE FUNDS**

Special Revenue Funds are a classification of funds to account for revenues (and expenditures related thereto) segregated by City policy, Federal or State statutes for specific purposes. The City maintained three Special Revenue Funds during 2015.

**Forfeiture and Seizure Fund**

This fund was established in 1991 to account for property forfeited pursuant to MS 609.531. A summary of the financial activity of this fund from inception is as follows:

	Prior Years	2015	Total
<b>Revenue:</b>			
Intergovernmental	\$9,825	\$ -	\$9,825
Earnings on investments	16,366	99	16,465
Reimbursements	8,601	-	8,601
Confiscated property	179,538	2,655	182,193
Sale of municipal property	5,046	-	5,046
Transfer from General Fund	-	3,000	3,000
Total revenue	<u>\$219,376</u>	<u>\$5,754</u>	<u>\$225,130</u>
<b>Expenditures:</b>			
<b>Public safety:</b>			
Materials and supplies	\$76,604	\$9,316	\$85,920
Contractual services	28,352	646	28,998
Capital outlay	101,116	-	101,116
Total expenditures	<u>\$206,072</u>	<u>\$9,962</u>	<u>216,034</u>
Fund balance - December 31, 2015			<u>\$9,096</u>

The use of these funds is restricted by MS 609.531 subd. 5 to "supplement the agency's operating fund or similar fund for use in law enforcement."

**Economic Development Fund**

This fund was established in 1998 to account for the activity of the Oak Park Heights Economic Development Authority. A summary of the financial activity of this fund is as follows:

	Prior Years	2015	Total
<b>Revenue:</b>			
Earnings on investments	\$35,989	\$232	\$36,221
Interfund loan interest	1,113	-	1,113
Refunds and reimbursements	2,531	1,001	3,532
Sale of municipal property	76	-	76
Transfer from Capital Revolving Fund	410,000	-	410,000
Total revenue	\$449,709	\$1,233	450,942
<b>Expenditures:</b>			
<b>Community development:</b>			
Materials and supplies	\$645	\$ -	645
Contractual services	45,914	-	45,914
Interfund loan interest	70,000	-	70,000
Capital outlay	290,018	-	290,018
Transfer to Capital Revolving Fund	11,113	-	11,113
Total expenditures	\$417,690	\$0	417,690
Fund balance - December 31, 2015			\$33,252

During 1998, the City purchased the Bell property and demolished the building in 1999. In prior years, this fund had a deficit that was funded by a \$260,000 interfund loan from the Capital Revolving Fund. This fund did not have the resources to repay the interfund loan. Therefore, the interfund loan was forgiven. If a sale of the Bell property occurs, the proceeds should be receipted in the Capital Revolving Fund.

During 2010, the City purchased property on Osgood Avenue, with the intent to resell the property. The purchase was funded by a \$150,000 transfer from the Capital Revolving Fund.

This was not a loan from the Capital Revolving Fund, but the intent is to transfer back sales proceeds to the Capital Revolving Fund once the property is sold.

**TIF District #1 Fund**

This fund was established in 2012 to account for Tax Increment District 1-1 (Oakgreen Commons). A summary of the financial activity of this fund from inception is as follows:

	Prior Years	2015	Total
<b>Revenue:</b>			
Tax increment	\$258,627	\$184,251	\$442,878
Investment income	289	339	628
Transfer in from TIF #2	5,049	-	5,049
Total revenue	<u>\$263,965</u>	<u>\$184,590</u>	<u>448,555</u>
<b>Expenditures:</b>			
General government:			
TIF note payment	\$212,770	\$148,109	360,879
Other	1,335	-	1,335
Total expenditures	<u>\$214,105</u>	<u>\$148,109</u>	<u>362,214</u>
Fund balance - December 31, 2015			<u>\$86,341</u>

The City issued a TIF Note in the principal sum of \$1,200,000. The TIF Note is payable solely from “available” tax increment revenue. Available tax increment revenue is an amount equal to 80% of tax increment revenue received by the City. The City has no obligation on the note after February 21, 2026.

**TIF District #2 Fund**

This fund was established in 2014. A summary of the financial activity is as follows:

	Prior Years	2015	Total
Revenue:			
Investment income	\$12	\$13	\$25
Refunds and reimbursements	-	1,000	1,000
Total revenue	<u>\$12</u>	<u>\$1,013</u>	<u>1,025</u>
Expenditures:			
Land purchase	\$341,710	\$ -	341,710
Other	30,519	29,790	60,309
Transfer to TIF #1	5,049	-	5,049
Total expenditures	<u>\$377,278</u>	<u>\$29,790</u>	<u>407,068</u>
Fund balance - December 31, 2015			<u>(\$406,043)</u>

The fund deficit was financed by an internal loan from the General Fund.

**DEBT SERVICE FUNDS**

Debt Service Funds are a type of governmental fund to account for the accumulation of resources for the payment of interest and principal on debt (other than Enterprise Fund debt).

The City maintained three Debt Service Funds during 2015.

**Capital Improvement Bonds of 2008/2012A**

The bond was issued to finance construction of City Hall. The repayment of the bond issue is being funded by property tax levies. Taxes for 2009-2011 were levied in the Debt Service Fund. A \$410,000 property tax was levied in the General Fund for 2013 and was transferred into the Debt Service Fund. In 2012, the Crossover Refunding Bonds of 2012A were issued to refund the 2008 Bonds on December 15, 2016. The refunding resulted in a debt service savings of \$404,000. A schedule of actual and projected tax levies (per the bond resolution) and debt payments are as follows:

Year	Cash and Current Assets Balance January 1	Property Taxes	Bond Proceeds	Investment Interest	Total Projected Receipts	Debt Payments	Cash and Current Assets Balance December 31
2008	\$ -	\$ -	\$242,303	\$7,457	\$249,760	\$122,513	\$127,247
2009	127,247	336,292	-	3,250	339,542	380,025	86,764
2010	86,764	392,805	-	1,656	394,461	391,650	89,575
2011	89,575	400,902	-	1,556	402,458	392,525	99,508
2012	99,508	400,000	5,191,283	5,197	5,596,480	403,030	5,292,958
2013	5,292,958	410,000	-	(7,988)	402,012	521,677	5,173,293
2014	5,173,293	420,000	-	45,662	465,662	526,776	5,112,179
2015	5,112,179	430,000	-	30,720	460,720	535,175	5,037,724
2016	5,037,724	440,000	-	23,097	463,097	5,402,758	98,063
2017	98,063	410,000	-	701	410,701	409,758	99,006
2018	99,006	420,000	-	722	420,722	418,658	101,070
2019	101,070	430,000	-	747	430,747	432,258	99,559
2020	99,559	440,000	-	762	440,762	445,458	94,863
2021	94,863	460,000	-	761	460,761	458,258	97,366
2022	97,366	475,000	-	790	475,790	470,658	102,498
2023	102,498	490,000	-	841	490,841	492,658	100,681
2024	100,681	505,000	-	860	505,860	509,058	97,483
2025	97,483	520,000	-	880	520,880	539,958	78,405
2026	78,405	535,000	-	815	535,815	560,058	54,162
2027	54,162	550,000	-	714	550,714	569,294	35,582
2028	35,582	575,000	-	659	575,659	597,576	13,665
<b>Total</b>		<b>\$9,039,999</b>	<b>\$5,433,586</b>	<b>\$119,859</b>	<b>\$14,593,444</b>	<b>\$14,579,779</b>	
<b>Assumptions</b>							
Property tax collection rate.....				100%			
Investment interest rate.....				0.50%			
Negative interest charged to funds?.....				no			

**Capital Improvement Bonds of 2009**

The bond was issued as additional financing for construction of City Hall. The repayment of the bond is being funded by property tax levies. Taxes are levied in the General Fund and then transferred into the Debt Service Fund. A schedule of actual and projected tax levies (per the bond resolution) and debt payments are as follows:

Year	Cash and Current Assets Balance January 1	Transfers/ Property Taxes	Bond Proceeds	Investment Interest	Total Projected Receipts	Debt Payments	Cash and Current Assets Balance December 31
2009	\$ -	\$ -	\$21,582	\$1,357	\$22,939	\$7,588	\$15,351
2010	15,351	122,000	-	720	122,720	130,350	7,721
2011	7,721	134,000	-	492	134,492	129,150	13,063
2012	13,063	136,000	-	460	136,460	132,650	16,873
2013	16,873	138,000	-	133	138,133	135,760	19,246
2014	19,246	139,000	-	586	139,586	138,560	20,272
2015	20,272	140,000	-	327	140,327	140,858	19,741
2016	19,741	142,000	-	389	142,389	142,678	19,452
2017	19,452	143,000	-	397	143,397	144,114	18,735
2018	18,735	144,000	-	397	144,397	150,084	13,048
2019	13,048	145,000	-	350	145,350	155,326	3,072
Total		<u>\$1,383,000</u>	<u>\$21,582</u>	<u>\$5,608</u>	<u>\$1,410,190</u>	<u>\$1,407,118</u>	

Assumptions	
Property tax collection rate.....	100%
Investment interest rate.....	1.00%
Negative interest charged to funds?.....	no

**Capital Improvement Bonds of 2014A**

The bond was issued as financing for the 2015 street reconstruction project. The repayment of the bond is being funded by property tax levies and special assessments. Taxes are levied in the General Fund and then transferred into the Debt Service Fund. Assessments are levied in the Debt Service Fund. The data provided by the City’s fiscal advisor regarding the proposed manner of repayment for the Bonds from special assessments contained miscalculations which will lead to a shortage in the funding necessary to pay the bonds. A settlement was reached to which the City’s fiscal advisor paid the City \$180,000 to cover a portion of that deficit. A schedule of actual and projected tax and assessment levies (per the bond resolution) and debt payments are as follows:

City of Oak Park Heights, Minnesota								
Projection of Cashflow								
Capital Improvement Bonds of 2014A								
Year	Cash and Current Assets Balance January 1	Transfers/ Property Taxes	Special Assessments	Bond Proceeds and Other Receipts	Investment Interest	Total Projected Receipts	Debt Payments	Cash and Current Assets Balance December 31
2014	\$ -	\$ -	\$218,041	\$87,054	\$2,021	\$307,116	\$45,859	\$261,257
2015	261,257	411,314	381,071	359,012	2,165	1,153,562	250,100	1,164,719
2016	1,164,719	139,000	135,145	-	492	274,637	481,800	957,556
2017	957,556	141,000	118,419	-	460	259,879	473,800	743,635
2018	743,635	142,000	114,424	-	133	256,557	465,800	534,392
2019	534,392	144,000	110,430	-	586	255,016	432,800	356,608
2020	356,608	145,000	106,436	-	327	251,763	425,300	183,071
2021	183,071	147,000	102,442	-	327	249,769	392,800	40,040
2022	40,040	149,000	98,448	-	608	248,056	385,800	(97,704)
2023	(97,704)	150,000	94,453	-	-	244,453	353,800	(207,051)
2024	(207,051)	152,000	90,459	-	-	242,459	344,050	(308,642)
2025	(308,642)	153,000	37,760	-	-	190,760	319,300	(437,182)
<b>Total</b>		<b>\$1,873,314</b>	<b>\$1,607,528</b>	<b>\$446,066</b>	<b>\$7,119</b>	<b>\$3,934,027</b>	<b>\$4,371,209</b>	
<b>Assumptions</b>								
Special assessment collection rate.....				100%				
Property tax collection rate.....				100%				
Investment interest rate.....				1.00%				
Negative interest charged to funds?.....				no				

**CAPITAL PROJECT FUNDS**

A summary of the financial activity of the Capital Project Funds for the year ended December 31, 2015 is as follows:

Fund	Revenues	Expenditures	Interfund Transfers	Increase in Fund Balance	Fund Balance 12/31/2015	Comments
Capital Revolving	\$9,648	\$79,199	\$ -	(\$69,551)	\$26,189	Expenditures relate to Hwy 36 Bridge Project.
Budgeted Projects and Equipment Revolving	19,848	152,565	593,842	461,125	2,422,997	Received transfers from General, Water, Sewer, and Storm Sewer funds.
Street Reconstruction	145,626	3,947,411	93,386	(3,708,399)	1,682,041	Expenditures relate to 2014-2015 Street Reconstruction.
City Hall Improvements	701	5,814	-	(5,113)	92,799	Accounted for construction of city hall.
Park Development	4,791	3,000	-	1,791	661,464	
Moelter Park	5,302	20,186	(97,100)	(111,984)	396,237	Transfer to Street Reconstruction fund.
Renewal and Replacement	22,214	26,058	179,929	176,085	3,204,223	Receives annual transfer from Water and Sewer. Majority of transfers out were to the Street Reconstruction fund.
Storm Sewer Renewal/Replacement	973	-	263,800	264,773	440,719	Received transfer from General Fund and Street Reconstruction fund.
Sanitary Sewer Connection	33,821	-	-	33,821	454,428	
Water Connection	163,163	-	-	163,163	612,759	
Storm Sewer Connection	31,951	-	-	31,951	999,175	
Water Tower Rehabilitation	49,031	73	40,479	89,437	368,605	Received transfer from Water fund.
Well Rehabilitation	949	14,736	9,006	(4,781)	127,719	Received transfer from Water fund.
Sewer Rehabilitation	367	-	1,938	2,305	53,177	Received transfer from Sewer fund.
<b>Totals</b>	<b>\$488,385</b>	<b>\$4,249,042</b>	<b>\$1,085,280</b>	<b>(\$2,675,377)</b>	<b>\$11,542,532</b>	

**Budgeted Projects and Equipment Revolving Fund**

The Budgeted Projects and Equipment Revolving Fund (formerly Capital Improvements Fund) was established in 1978 to account for monies set aside for various capital improvements.

This fund is budgeted annually by the City Council in conjunction with the City's budget process. As part of such process, the City allocates the monies in this fund to specific projects and/or programs. Such allocation/designations were as follows at December 31, 2015:

	Purpose	Fund Balance 12/31/14	Revenues and Transfers	Expenditures	Fund Balance 12/31/15
1	Sealcoat/crack seal	\$181,602	\$ -	\$79,109	\$102,493
2	Mill and overlay	-	100,000	-	100,000
3	Fire station	-	100,000	-	100,000
4	Municipal building	256,612	15,000	-	271,612
5	Recreation:				
6	Park and trail improvements	174,576	35,000	-	209,576
7	Trail maintenance	84,300	10,000	-	94,300
8	Park building maintenance	117,000	50,000	-	167,000
9	Brekke Park memorial fund	394	-	-	394
10	Computers	56,286	21,700	20,320	57,666
11	Document imaging	-	-	-	-
12	Vehicles:				
13	Police	125,882	39,375	-	165,257
14	Public works	152,916	64,667	27,684	189,899
15	Building official	238	-	-	238
16	Furniture and equipment:				
17	General	-	-	-	-
18	Building inspections	-	-	-	-
19	Police	346	-	-	346
20	Trees	86,373	5,950	19,840	72,483
21	Emerald ash borer	120,000	-	-	120,000
22	Public works equipment	215,216	113,000	-	328,216
23	Police radio equipment	38,080	3,000	-	41,080
24	Police computer equipment	15,126	5,000	-	20,126
25	Backup software	7,500	7,500	5,612	9,388
26	Coalition of utility cities	16,000	-	-	16,000
27	Civil defense	16,000	-	-	16,000
28	Meter change out	92,200	26,100	-	118,300
29	Generator replacement	7,000	3,500	-	10,500
30	Unallocated	198,225	13,898	-	212,123
	Totals	\$1,961,872	\$613,690	\$152,565	\$2,422,997

**ENTERPRISE FUNDS**

Enterprise funds account for water, sanitary sewer and storm sewer operations.

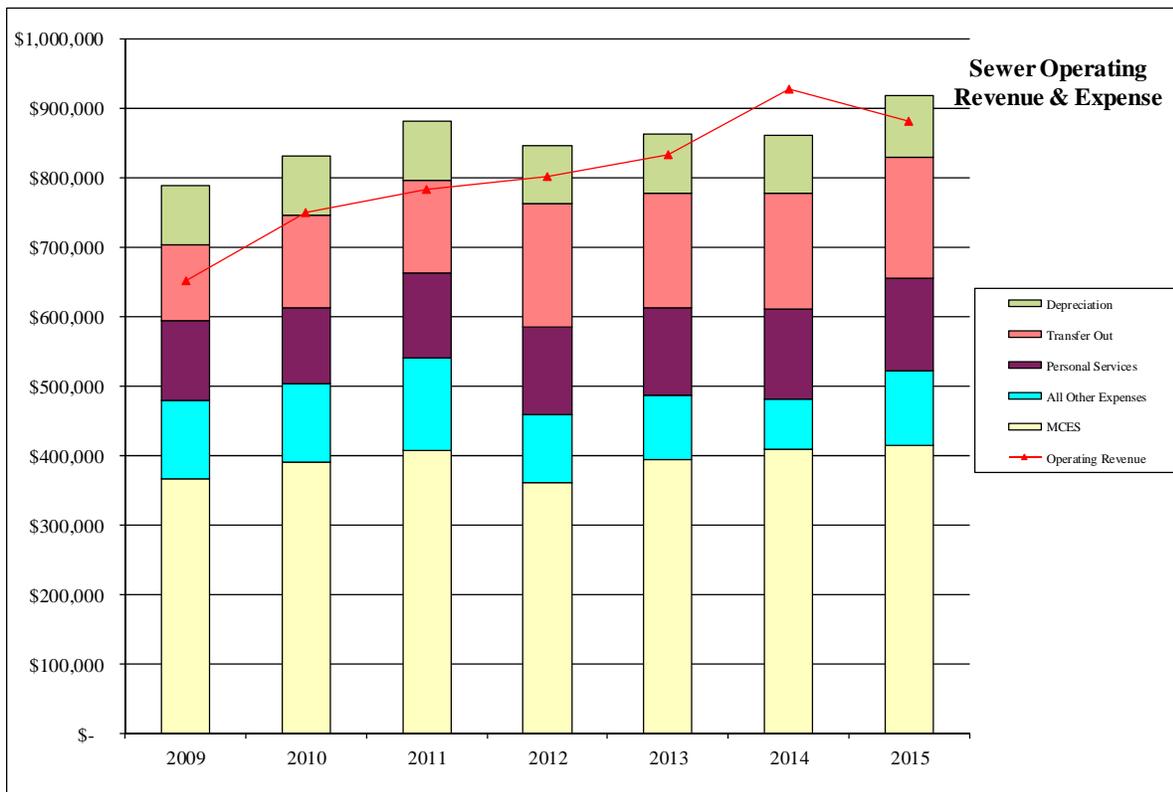
**Water Utility Fund**

A chart of income from operations for the past seven years is as follows:



**Sewer Utility Fund**

A chart of income from operations for the past seven years is as follows:



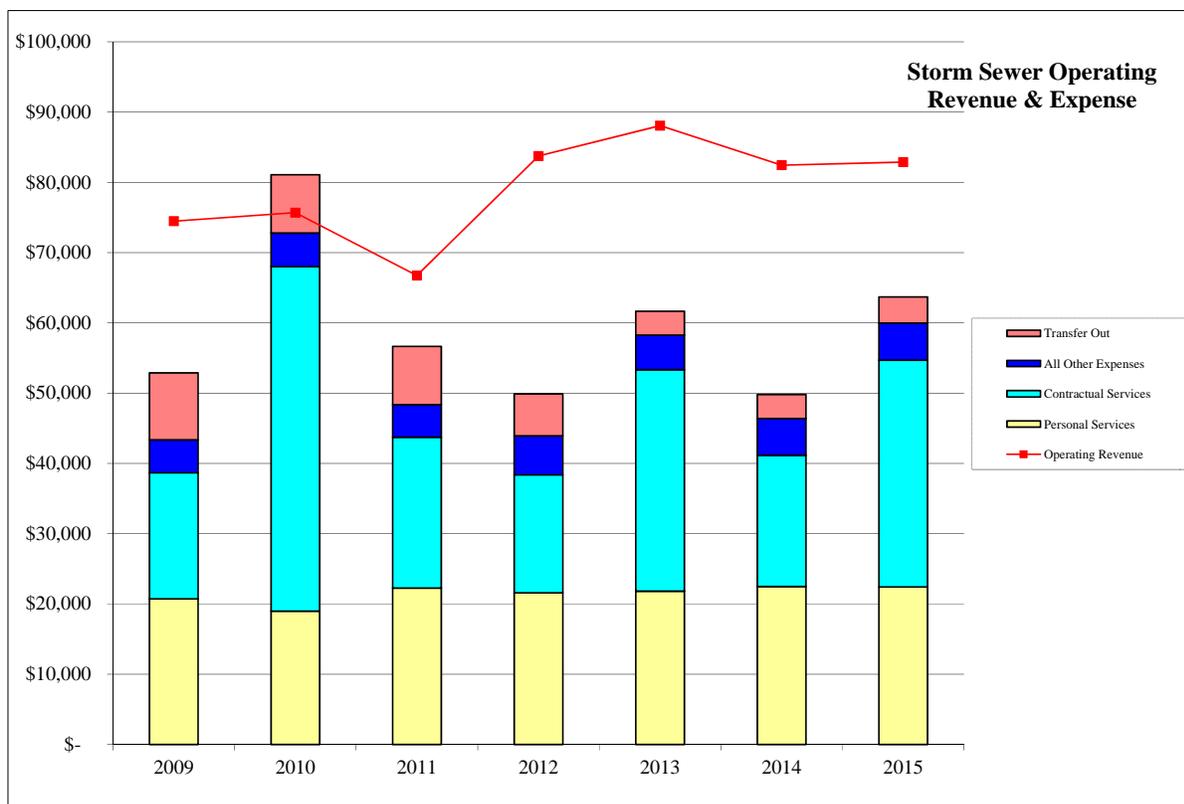
The City's water and sewer rates for the past seven years are as follows:

Type of Charge	Monthly Rate	Quarterly Rate						
	Effective 01/01/08	Effective 07/01/09	Effective 01/01/10	Effective 01/01/11	Effective 01/01/12	Effective 01/01/13	Effective 01/01/14	Effective 01/01/15
<b>Water:</b>								
Base fee	\$24.35	\$28.31	\$28.31	\$29.91	\$30.70	\$30.70	\$30.70	\$38.19
Charge per 1,000 gallons for:								
Usage between 15,000 and 50,000 gallons	\$1.62	\$1.96	\$1.96	\$2.48	\$2.55	\$2.55	\$2.55	\$3.05
Usage between 50,000 and 99,000 gallons	\$2.22	\$2.68	\$2.68	\$2.97	\$3.05	\$3.05	\$3.05	\$3.55
Usage between 99,000 and 200,000 gallons	\$2.67	\$3.23	\$3.23	\$3.81	\$3.92	\$3.92	\$3.92	\$4.42
Usage in excess of 200,000 gallons	\$2.67	\$3.23	\$3.91	\$4.61	\$4.74	\$4.74	\$4.74	\$5.24
<b>Sewer:</b>								
Base fee	\$49.95	\$54.28	\$56.99	\$60.41	\$62.10	\$66.00	\$66.00	\$66.00
Charge per 1,000 gallons for:								
Usage between 15,000 and 50,000 gallons	\$3.40	\$3.70	\$4.07	\$4.31	\$4.43	\$4.60	\$4.80	\$4.90
Usage in excess of 50,000 gallons	\$3.40	\$3.70	\$4.50	\$4.77	\$4.90	\$4.90	\$5.20	\$5.30

**Storm Sewer Utility Fund**

The City created the stormwater utility during 1999. A monthly fee (effective October 1, 1999) was established at \$1 per household and \$10 per acre for commercial properties. The fee for vacant residential property is 50 cents per month and undeveloped commercial property is \$1.50 an acre per month.

A chart of income from operation for the past seven years is as follows:



## **COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE**

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Oak Park Heights, Minnesota (the City) for the year ended December 31, 2015. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and the standards applicable to financial audits contained in *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 letter to you dated December 29, 2015. Professional standards also require that we communicate to you the following information related to our audit.

### 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 18 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.

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 estimates affecting the financial statements were management's estimation of 1) the net pension liability and pension related deferred inflows and outflows of resources and, 2) the revenue recognition of MNDOT assistance relating to the bridge project. We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole. The pension estimates are based on actuarial studies. The City has several agreements with the State that details the financial assistance to be provided to the City of Oak Park Heights relating to the Bridge Project. The revenue recognition of this financial assistance has been delayed pending receipt of revenue.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements pertained to the City's commitment to relocate portions of its utility infrastructure along Highway 36 (Note 10A) and Note 7 – Defined Benefit Pension Plans and Note 18 – Change in Accounting Principle.

The disclosures in the financial statements are neutral, consistent, and clear.

**Difficulties Encountered in Performing the Audit**

We encountered no 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 clearly trivial, and communicate them to the appropriate level of management. There were no uncorrected 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 April 19, 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 governmental unit'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 governmental unit'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 Information in Documents Containing Audited Financial Statements**

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.

**Closing**

This information is intended solely for the information and use of the City Council and Management of the City of Oak Park Heights, Minnesota and is not intended to be, and should not be, used by anyone other than these specified parties.