CITY OF PARK RAPIDS
CITY COUNCIL WORKSHOP
June 28, 2016, 5:15 PM
Park Rapids Public Library-Lower Level
Park Rapids, Minnesota

1. CALL TO ORDER: Mayor Pat Mikesh called the City Council Workshop for February 9th, 2016, to order at 5:15 p.m.

2. ROLL CALL: Present: Mayor Pat Mikesh, Councilmembers Ryan Leckner, Rod Nordberg, Erika Randall, and Paul Utke. Absent: None. Staff Present: Administrator John McKinney, Planner Ryan Mathisrud, Treasurer Angela Brumbaugh, Liquor Store Manager Scott Olson, and Clerk Margie Vik. Others Present: Jennifer Piekarski from berganKDV, Dick Rutherford, and Kevin Cederstrom from the Enterprise.

3. PRESENTATION:

A. Results from the 2015 Audit by berganKDV: Jennifer Piekarski, from berganKDV, stated their firm does an opinion based on the city financial statements. We issue a report on the results of the audit based on Government Auditing Standards. We test for Minnesota Legal Compliance, and some financial analysis and findings as provided in the Communications Letter. we provide the required communications to the board, and we address emerging issues.

Piekarski stated as part of the Independent Auditor's Report, the financial statements are the management's responsibility. As auditors it's our responsibility to review those statements and express an opinion on those. We examine on a test basis the evidence supporting amounts and disclosures in the financial statements. We don't look at every receipt or disbursement. We look at where are the risks for the city for this audit and then we tailor our audit toward testing those areas. We did issue an unmodified opinion on the city's basis financial statements which comprise the city's governmental-wide activities, each major fund, and the aggregate remaining funds, cash flows and budget to actual statements for the city's general fund and airport fund. That unmodified opinion is the best one that you can get for the city. That provides assurance that the financial statements are fairly presented in all material respects.

Piekarski stated the report on Government Auditing Standards looks at the controls that are in place. We did have a few findings for internal controls. We have material audit adjustments, lack of segregation of accounting duties, and preparation of financial statements. Those three findings are very similar to what you've seen in the past. There's nothing new there. The unusual things are the once a year reconciliations that are a little harder to do in a city because it's outside of the normal scope of duties. The lack of segregation is because it's a small office. Sometime duties overlap. We prepare your financial statements because we stay up on the new training and we do sixty of them in six months. It's easier for you to hire us to do them for you. We had one finding on the testing on Minnesota Legal Compliance getting form IC134 before final payment. Usually this isn't a problem, but when you have large construction projects you want to make sure that you're getting this form in saying they paid their subcontractors like they are supposed to before you are paying them their final payment. When you have the big construction projects most of the time your engineers will make sure you have that before you paid them the final retainage. One of those was missing this year. Nothing has changed in the required communication. Its things that are required to put into writing as the management of the city. Emerging issues include the new GASBs that are coming out in the future.

Piekarski stated GASB 68 was implemented in 2015. That's taking a portion of the unfunded liability for the fire, police, and regular government employees, and putting our share of that liability on your government-wide financial statements. It restated your beginning net position is $997,251.00. When you look at your government wide statement of that position you're going to see a liability that's new this year of about $1.5 million. It's not that you're going to need to write a check for that amount. It's saying that all of the payments that you've made into PERA and PEP have this liability, and this is your share. If the state wants to change the funding status of the plan they want a target area of funding of like 80% to 90%. If you're falling below that, then through legislation they'll increase the contribution rates that you'll pay as employees and employer. You just need to budget for that increase if it happens. The liability is there, but it's not like your bonds that you have to pay for.

Nordberg questioned it says net position change, this is the change? Piekarski stated to add it in, instead of saying this is a brand new liability this year, you really had a standing liability last year, and it just wasn't on the books. So if it had been on the books last year that position would have been that much lower, so we decreased the beginning by that much to say if that had been on the books then this is the true change for this year. Nordberg questioned so the $1.5 million is the total. Piekarski stated yes, that is your liability outstanding at year end. Nordberg questioned that's for all retirement plans across the city? Piekarski answered yes. Nordberg questioned how does that compare? Piekarski stated it depends on the size of the city. There are different reports out there from the different plans that say this is each city's liability. It's hard to say you're doing great and you're not, because everyone has a different employee structure. Everybody took a big hit this year getting it onto their books. Utke stated this is above and beyond what is already paid so this could be an additional assessment. Piekarski stated if they decide to raise contribution rates. Nordberg stated it would be assessed over many years. Nobody comes up with that in one year. Piekarski stated it would be a gradual increase. I don't know if they're ever going to fully fund it. They have different pension plans across the country, and this was country wide implemented across the nation. Everyone had to do it. Some state plans are funded at 30%, some require 100% funding. Minnesota's PERA plan is 80% funded.

Piekarski stated the general fund revenues were up 10.8% in 2015. Intergovernmental revenues were up $99,000.00 because of the increased local government aid (LGA). You had some new local grants and the state road maintenance aid you received. Property taxes were up about $200,000.00, with an increase in the levy along with increased delinquent tax collections. The other sources of revenue were about the same. Over five years your revenue is up $424,000.00. Overall you were over budget by $258,000.00. Property taxes were over budget by $83,000.00. That's some increase in delinquency collection and some payments in lieu of property taxes. Intergovernmental revenue was over budget $125,000.00. You received additional state fire aid/police aid than was budgeted. You received some different grants that weren't anticipated. Miscellaneous revenue was over budgeted by $44,000.00, with the unrealized gain in investments being larger than what was budgeted for. Typically we see cities budgeting very small for that because you don't know where those numbers are going to come in. It's better to budget lower so if you get extra it's very exciting.

Piekarski stated overall you're up about 5% for the year for general fund expenditures. The majority of that increase was for capital outlay, up about $114,000, for the purchase of a couple of police cars, tools, and a lawn mower in 2015. The capital overlay fluctuates yearly depending on what you're spending on based on your capital plan for that year. We see the other functions being very consistent from year to year. It shows you're stable.

Piekarski stated you're under budget by about $133,000.00. General government is under budget by about $70,000.00. You have been budgeting for a full time administrator with benefits, but you have McKinney under contract. Legal fees were less than anticipated. Public works was under budget by $57,000.00. You had less overtime and less sand and salt compared to the prior year than was budgeted. We didn't have a lot of snow storms in 2015. We've seen that across the state. Parks and Recreation was under budget by $36,000.00. Utilities were less based on their usages and decreases in prices. You had fewer repairs and maintenance issues. You were waiting for the library study to be completed before you did some repairs to the building, so you were under budget there also. Capital outlay was over budget by $55,000.00. That was due to purchasing police cars. You bought one more than you had budgeted for. The good news is that you set aside some of your fund balance every year for your police. So when you are over budget it's not something to be concerned about because of those funds that are set aside.

Piekarski stated you had an increase in cash from 2014 to 2015. It's not that you had more cash for the city, but you had less in cash deficits in your other funds that you were covering with the general fund. Those funds are starting to cover themselves. You issued a bond in 2015 to cover some prior costs that had been expended knowing that you were going to issue a bond so the general fund was covering them in the interim. That brought the cash balance up. It's the highest cash balance that you've had in five years. Your fund balance is also the highest it's been in five years. Right now that unassigned fund balance is covering about 62% of your current year expenditures, up from 52% in 2014. It's important to have a healthy cash fund balance to help float other funds if it's needed, and also if emergencies come up that you can't anticipate and all of a sudden you need a large cash flow to help fund projects or disasters.

Nordberg questioned when we set aside money for police cars in one year but we're going to buy it in another year, how does that show up in the budget? There's money there in the bank but it's not in this year's budget. Brumbaugh stated it's designated on our balance sheet and that's what she's saying by setting it aside. Then we take it out of the designated and put it back into the general fund balance. Nordberg questioned is that a category somewhere designated so that it's sitting at the bank ready to use? Brumbaugh stated right. Nordberg stated this looks like we went over budget. Piekarski stated cities do it different ways. Some cities budget knowing they are going to spend it out of their designated funds, others don't budget for it, but take it out of their fund balance. It depends on how the city wants to budget for those expenditures. McKinney stated we budget new money in the sense of those kinds of transactions because we have the other two. Nordberg stated that's exactly the case. We didn't go over budget. We only spent last year's money. McKinney stated instead of putting $90,000.00 in the budget we put $30,000.00, because it's $30,000.00 of new money, and designated funds of $60,000.00. The budget is the new money, but the expenditure is $90,000.00. Brumbaugh stated if someone looked at this, it would look like we didn't do our job. They really need to look at more than one of the pages of this report. We can show anyone that we have that money set aside.

Piekarski stated in 2015 you did have some cash deficits. In January through May you're spending money. In June you get a big tax supplement. Then you spend down again until you get the November settlement. There's $800,000.00 cash you're using to fund other projects. You need the cash to help maintain that heathy balance because you're only getting big payments twice a year, and that's the majority of your money. You keep a high balance because you're spending it down every six months and you're helping to cover deficits in other project funds.

Piekarski stated there's about $855,000.00 the general fund is covering for other funds that have a deficit in the interfund activity. The airport fund needed $300,000.00. You do have receivables in the airport fund so that cash deficit is strictly a timing thing while you wait for grants. A lot of grants you have to spend the money before you can get it back. The airport had a fund balance of $40,000.00 this year. For the Riverside Area deficit of $74,162.00, you have some special assessments that will start coming in to cover that. It will take a few years to get there. The other governmental fund deficit is $480,679.00. It's the biggest number. $138,000.00 of that is from your TIF funds. Some of that will be recovered as you get your TIF money in it, but not all of it will be. There needs to be a plan on how you're going to cover those once the TIF is closed and you won't be getting any more funds. There's $342,000.00 in your capital projects that there's no plan for, and it's too old to bond for. That did get knocked down significantly from last year with the bonding you had in 2015. You need a plan on how to cover this. You may want to transfer funds from the general fund over a period of years.

Nordberg questioned what years are you talking about? Brumbaugh stated the largest one is the State Highway 34 Project. We didn't get the final bill until two years after the project closed. We argued it for a while but it was a state project and we didn't have a choice we had to pay it. It was almost $380,000.00. It was too late to bond for it. McKinney stated they were costs we didn't even know about. We thought they were state expenses.

Piekarski stated we looked at your tax capacity and levy rates and then comparing your percentage to the state. Over five years your tax capacity is down about $306,000.00. Your certified levy is up about $244,000.00. So your tax capacity rate is up from 59% to 72%. In 2015 the average city in Minnesota is about 47%. Your tax capacity did increase from 2014 to 2015. It is starting to stabilize and go back up. We've seen that across the state. Hopefully in the next few years it really turns around as property market values go back up.

Piekarski stated in the water fund, in 2015 you had an operating loss of $163,000.00. That loss does include depreciation of $479,000.00. It's not a true expense that you are cutting a check for, but it's helping to cover future costs by setting aside that money, so it looks like you have an operating loss. If you exclude the depreciation you have about $350,000.00 in excess for the year, of revenues over expenditures. Not included in the expenses is $95,000.00 in principle payments, since it's a full accrual statement the reduction of that liability just happens on the balance sheet and doesn't show as an expense, but you still have to cut a check and pay cash for that. When we look at the cash flow statement overall cash for the water fund for the year is up about $58,000.00.

Piekarski stated the sewer fund operating revenues were down about $140,000.00. There was one quarter where some meters didn't get billed, so you have a decrease in revenue. You went from $519,000.00 to $379,000.00 in 2015. A couple of factors caused that giant decrease from year to year. In 2014 when you had all of those frozen water lines, when you were giving credits to everyone on their water bills, it didn't go on their sewer bills, so that drove those sewer revenues up. So you didn't have that extra revenue for the water lines in 2015 so that brought it down. Then with the new meter installation there were some high/low meters installed that didn't get billed for one quarter. So you didn't get that revenue, and it caused a decrease. Brumbaugh stated we're working on that. We have to have new numbers to attach to the new meters. All sewer is attached to water usage. We can't attach the high/low meters to the water usage on those. We have to do new accounts for all of them. The high/low meter is for commercial users. When they are on low usage we lose some revenue because they're not using as much and the meter is large so it can seep through. The high/low will catch that usage, which before we were not. We didn't realize we had to set those up differently. Piekarski stated operating expenditures were stable, down about $8,000.00. Cash for the year is down about $133,000.00. You had vacation expense of$83,000.00 for the year that caused most of that deficit

Piekarski stated we have enough information now to create a storm water fund graph. We've had operating surpluses for the last five years. Your operating revenue is stable, down about $1,200.00. Operating expenses were down $4,800.00. The fund has been very stable for the last number of years. You did have a transfer out in 2015 for a project. That's what this fund is for, to pay for projects as you need them.

Piekarski stated the liquor fund's gross profit percentage is up from last year. You were at 25.6% in 2015, and 24.4% in 2014. Sales were down about $156,000.00. Your costs were down about the same. You had a new liquor store come in just north of town so you knew you'd see a reduction in sales. The good news is that you kept your costs in line with the sales decrease. You increased your net position about $204,000.00 even with the decrease in sales. You had a really good year. You transferred out about $105,000.00 in the current year.

Piekarski stated as your bonds drop off you have a decrease in payments. You have issued more in 2016, about $4 million for a refunding. Next year you'll see these numbers jump up until the bond drops off. You have to show both debts on your books until the refunding hits. In 2018 is when the first bond will drop off. It looks a little higher here, but you're only making payments on one bond, the one issued in 2016.

Piekarski thanked the Council for having berganKDV come up and do the audit again this year. We enjoy working with your staff.

4. ADJOURNMENT: **A motion was made by Utke, seconded by Leckner, and unanimously carried to adjourn the workshop at 5:50 p.m.**

[seal]

____
Mayor Pat Mikesh

ATTEST:

____
Margie M. Vik
City Clerk