CITY OF PARK RAPIDS
CITY COUNCIL WORKSHOP
JULY 11, 2017, 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 July 11th, 2017, to order at 5:15 p.m.

2. ROLL CALL: Present: Mayor Pat Mikesh, Councilmembers Ryan Leckner, Erika Randall, and Liz Stone. Absent: Councilmember Dick Rutherford. Staff Present: Administrator John McKinney, Planner Ryan Mathisrud, Treasurer Angela Brumbaugh, Liquor Store Manager Scott Olson, Public Facilities Maintenance Superintendent Chris Fieldsend, Police Chief Jeff Appel, and Clerk Margie Vik. Others Present: Jennifer Piekarski from BerganKDV, Sue Tomte, Nancy Newman, and Kevin Cederstrom from the Enterprise.

3. PRESENTATION:

A. Results from the 2016 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 Council, and we address emerging issues for up and coming topics.

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 express express an opinion on those financial statements. 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 that comes in. We do risk based auditing, so we look at what's happening within the city and within government accounting to see where the riskier areas are, and then focus our audit work on 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 clean opinion, or the best one that you can get for the city. So it's the one that you are used to seeing for the city.

Piekarski stated the report on Government Auditing Standards looks at the internal 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. For those of you that have been on the Council for a while you're used to using that. The once a year reconciliations 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. It's just something to be aware off. We're not saying hire ten more people because 99% of the clients we work with get this comment in some capacity. It's just being aware and asking questions when you have them. It's easier for us to handle your financial statements than for Brumbaugh to stay up to date on all of the training.

Piekarski stated we had one finding on the testing on Minnesota Legal Compliance for prompt payment to subcontractor's verbiage. We looked at the contracts and it was in there that they had to be paid within seven days. Which is good, the state statute says ten. You can be more restrictive. But it's missing the part that it has to have one and a half percent interest if they don't pay timely. We've already talked to your engineer about getting that verbiage into the contracts. There is some required communication in the communication letter. It's all pretty standard stuff and nothing's really changed on that in the last year. The emerging issue is about GASB 75. It changes the pension standards. It will put a bigger number on your financial statement-government wide. It just adds about ten more pages into your statement here.

Piekarski stated the general fund revenues by type over the past five years were up .6% from 2015 to 2016. Overall that's very consistent. When you look at it by type those were all consistent year to year. There were no big fluctuations in what the city was receiving. If you look over the five years you will see a big increase. It was up $579,000.00 from 2012 to 2016, looking at the components of that $312,000.00 increase in taxes and $167,000.00 in intergovernment revenues. Most of those intergovernment revenues make up your LGA aid. It was decreased for a while and now it's coming back up. That's the main reason for that increase. Miscellaneous revenues were up $77,000.00. A lot of that is donations and dividends that fluctuate from year to year.

Piekarski stated we'll look at general fund expenditures for the last five years. You did have a 9.4% increase here. There were increase/decreases across all five programs. Capital outlay decreased about $122,000.00, due to purchases of police cars and a lawn mower in 2015. There were no big purchases in 2016 so you saw a decrease. In general government there was an increase of about $75,000.00. There were increased legal fees. You added a part time staff person, there were increased election costs in there. Public safety was up about $80,000.00. You had an organizational study done, a contract with an interim police chief, and salary increases for the staff as well. Public works was up about $167,000.00 due to road patching and increased utility costs. For that road patching in 2015, you received some state maintenance aid for roads. You received it in 2015, and spent it in 2016. Parks and recreation was up $61,000.00 for building repairs, and the tennis courts were resurfaced. A lot of that was covered by donations.

Piekarski stated your budget to actual in December of 2015 the Council approved a balanced budget. Then there were revisions during the year. In the actual results you added $80,000.00 to your fund balance at year end. If you look at the different pieces of that, revenues were over budget by $194,000.00. Charges for services were over budget by $38,000.00. There's some additional rental income received that was not budgeted for. The biggest piece was your miscellaneous revenues for donations, insurance dividends, and interest revenue. That came up about $89,000.00 over budget. We see this commonly in cities that budget conservatively for that because you don't want to spend money that you don't know you're going to get. Those are the items that you don't have a lot of control over because you don't know what's going to be coming in. It's insurance dividends, donations, you don't know what you're getting until you get it.

Piekarski stated expenditures were over budget by about $48,000.00. The biggest piece of that was public safety being over budget with additional capital purchases. Parks and recreation was over budget with the tennis court resurfacing. That was covered by donations. Even if you were over budget, you got that extra money for that as well. You put aside about $80,000.00. Some of that was for general government and you started the city hall remodel, for which the funds had been set aside.

Piekarski stated your general fund cash compared to your total fund balance increased to a high of $2.7 million in 2016, by $80,000.00 over the previous year. It's made up of different components. The unassigned fund balance is the amount that's available for funding at year end. Just that portion compared to your expenditures would cover about 60% of your expenditures based on 2016 levels. That's down from 62% in 2015. Nothing to worry about yet because your policy does say that you want to maintain 50% of fund balance to cover your expenditures. You're still in compliance with your policy. You want to maintain that healthy fund balance because if something happens and you need the extra cash, you don't get your big influx of money until you get your tax payment in July. You did have an increase in your cash balance of $511,000.00. That's a 28% increase from the prior year. You are still covering some cash deficits in other funds.

Piekarski stated your cash and investment balance, in the general fund, continues to decrease through the year until you get your tax payment in July, because you are spending down your cash reserves. The other funds are doing the same, decreasing until the tax settlement is deposited. So if something does happen you'll have that money set aside. That's why it's important to get that big settlement in July, and then you get a smaller one in December. That covers a lot of your payments throughout the year.

Piekarski stated in your interfund activity fund your balance was $855,332.00 in 2015. That's how much cash is being loaned out of the general fund to the other operating funds for their cash deficits. In 2016 that number decreased to $446,352.00. That's why we saw that your cash had increased because it wasn't covering as much deficit in the other funds. Your airport fund is down about $45,000.00 from the previous year. That has a lot to do with the timing on your grants from the state and federal governments. That one should take care of itself. The 2016 GO bond fund will have cash for the first year or two so in 2018 that should take care of itself too. In the other governmental funds it went from a $480,000.00 to a $172,000.00 deficit. What we did this year was there were a bunch of debt funds that were old and outstanding. All of the debts have been paid off. The general capital improvement fund had a deficit because we bonded as part of a state project and then they came back and said you owed $300,000.00. We've been running this big deficit in there. Since it was a bonded project we were able to take those debt funds that were closed now and helped to pay off that deficit. That's sitting at about $50,000.00 in the fund now. There's still about $98,000.00 in assessments to collect so that one should eventually, as those assessments are collected, should come back into the positive. We talked for the last three years that we have this big fund and what are we going to do with it, so that is taken care of now. About $120,000.00 of that deficit that's left is in the tax increment districts, TIF 9 especially. It's not expected to recover all of that cash. In the future you might have to cover that fund from the general fund with a permanent transfer.

Piekarski stated the tax capacity over the last five years has gone up $212,000.00, while at the same time your certified levy has gone up $359,000.00. It has increased your tax capacity from 65% to over 71% in 2016. It has gone down over the last two years as your property values have increased, as the market has come back around. The state average for 2016 was 46.52% compared to your 71.47%. Hopefully we can continue to see that taxable tax capacity rise as the market stays good.

Piekarski stated in 2016 the water fund had an operating loss of $169,626.00. It's comparable to the $163,411.00 loss you had in the previous year. That does include your depreciation of $494,000.00. Even though it's not a cash expense on the books its helping to depreciation your assets to help cover future costs. In 2016 you're covering about 65% of your depreciation on your assets. Some cities will look at this and evaluate where do we want to be? Do we want a policy where we are covering 50% of our depreciation, or do we want to be at 10% or 80%? It's how much of your future capital costs do you want to be putting on current users as opposed to future users. Do you want funds set aside that you can use for projects, or do you want to assess more? You are at about 60%. It's been consistent in the last couple of years in the water fund as to how much you have been covering. This is looking at where do you want to be because you do have some debt in this fund. There's about $80,000.00 in loan payments because of how enterprise funds run it shows here as an expense but you have to make that cash payment every year. Operating revenues are up about $15,000.00 because of more usage. When you get new meters you also see that usage spike, because the old meters spin slower. The new meters are more accurate and usage tends to go up. I've seen that in a number of cities that have put in new meters. The expenses were up $22,000.00. You had some increased repairs and maintenance, and for professional services. Cash for the year was up $274,000.00 for this fund and your unrestricted net position, the amount that's available to use for spending, was up about $270,000.00 as well. That increase is a good indicator that you are continuing to build long term health with your reserves for future costs. Enterprise funds get a little expensive when you have to start putting in new lines.

Piekarski stated the sewer fund operating revenues were up $19,000.00 because of the increased usage and more accurate meters. The expenditures were down $31,000.00 because of the purchase of those meters in the prior year. That cost was split between the water and the sewer funds. Over five years the revenues are down about $32,000.00, while expenditures are up $96,000.00. In this fund the depreciation expense is about $1 million for the current year. In 2016 you covered about 9% of your depreciation. If we look at that same number for 2015 you're covering less than 1% of your depreciation. The sewer funds, because of the nature of the fund, infrastructure is just so massive and it's hard to cover a lot of depreciation. This is one of those areas that you have to decide on a policy as to how much do you want to cover, or possibly raising rates. Most cities see that it's easier to have a little rate increase every year instead of trying to hit the users with one large rate increase. It's something for a future discussion. Your sewer fund currently has no debt for 2016. For this fund your cash was up about $41,000.00. The unrestricted net position, the long term health indicator was up about $46,000.00.

Piekarski stated the storm water fund is showing operating surplus for the fifth consecutive year. Operating revenue is very consistent, up $3,300.00. Operating expenses increased about $16,700.00. That's primarily due to increased depreciation for that fund. You added some capital assets so you had to start depreciating it so you didn't have any increase in your cash outlay for that. It's just purely the depreciation. The fund was very stable in 2016. It did have transfers out for different projects. That is what the fund is for. You're charging that so you can use those monies towards projects to help keep your debt and assessments down. This fund is covering 100% of its depreciation for the last five years. Your unrestricted net position in this fund did increase $58,000.00 as well.

Piekarski stated in the liquor fund the gross profit percentage is 24.1%. It's down from 25.6% in 2015. That changes as market prices increase sometimes it's hard to pass along. Sales were down about $33,000.00. I think you were anticipating that with the opening of a new store north of town. It's about a 1% decrease while costs increased $25,000.00. Part of that does have to relate to pension. Last year we talked about GASB 68 and implementing it. On these accrual funds we did have to allocate some of that cost to these funds. That accounts for some of that cost increase, and also part of the gross profit percentage increase as well. Just by the nature of accounting we do have to put it up in those numbers. This fund did have a decrease in its net position for 2016 in about $56,000.00. It's because of the transfers out. In 2016 you transferred out of the liquor fund $296,000.00 into other funds for projects, whereas in 2015 you only transferred $105,000.00. You had almost $300,000.00 in transfers out. You only had an increase in the net position of $56,000.00. You're still doing pretty good.

Piekarski stated regarding your future debt commitments, in 2016 you issued almost $5 million in debt. Over $4 million of that is for a refunding issuance. The big spike in 2018 that's when the refunding is going to occur. You carry both debts on your books until that refunding takes place in one large payment you'll pay off your old debt. It's being held in escrow until then. Your total debt outstanding at the end of the year, including both principal and interest is $20.7 million.

McKinney questioned the escrow fund is sufficient to pay off the refunded bond? Piekarski stated it should be. That's what you pay your financial advisor for. I'll tell you in 2018 if it did. Auditors are always a year behind. Brumbaugh stated our financial advisors looked at all of that and yes there should be.

Mikesh questioned you had concerns about no one looking over the numbers. It did say we're too small for that. Is that something that you're really looking at? Piekarski stated we look at it every year. In 2007 they really hammered down on internal controls. That's when these comments started. It's not new, we just want to make you aware that by the nature of how small you guys are there's not a lot of review on Brumbaugh's work. That's why we say you want to look at transfer out and bank statements. If we see fraud, a lot of it's been fraudulent EFT payments, either to themselves or someone hacked into your account and pulled it out of there. It's just being aware of controls that you have in place and looking through the check disbursement register for properly numerical sequencing and ask questions. It may not be adding extra people, but instead extra levels of review. Brumbaugh stated your new registers do have that. The accounting clerk looks to see what the last number was and if it doesn't match, then why. The system actually tells us that. I can't transfer money without two signatures, and the bank will call to verify the transfers. Piekarski stated it is state statute that you have to have controls for your bank transfers, and it's good that the bank is confirming the transfers with someone independent of the person who initiated it. Not everyone is doing that. Brumbaugh stated our online accounts are set up so that I can view them but I can't do anything with them, like transfers. We don't wire a lot of money, unless we have to due to time constrains. Piekarski stated we are just saying that these are some areas that we see some overlapping duties where we can discuss implementing controls that don't cost anymore, and so you are aware.

McKinney stated I want to thank you for your efforts. You have done a fine job. Piekarski stated we couldn't do it without Brumbaugh and her help. Brumbaugh stated it's a group effort. There's a lot of stuff we need from the county regarding property tax information. Piekarski stated their staff is very helpful. We'd like to thank you for having us back this year. If there are any other questions you have my contact information.

<u>4. ADJOURNMENT</u>: A motion was made by Stone, seconded by Randall, and unanimously carried to adjourn the workshop at 5:50 p.m.

[seal]

Mayor Pat Mikesh

ATTEST:

Margie M. Vik
City Clerk