

**CITY OF PARK RAPIDS
CITY COUNCIL MEETING
JULY 24, 2018, 6:00 PM
Park Rapids Public Library-Lower Level
Park Rapids, Minnesota**

1. CALL TO ORDER: The July 24th, 2018, Regular Meeting of the Park Rapids City Council was called to order at 6:00 p.m. by Mayor Pat Mikesh, and everyone present recited the Pledge of Allegiance.

2. ROLL CALL: Present: Mayor Pat Mikesh, Councilmembers Tom Conway, Ryan Leckner, Erika Randall, and Liz Stone. Absent: None. Staff Present: John McKinney, Planner Ryan Mathisrud, Treasurer Angela Brumbaugh, Public Facilities Superintendent Chris Fieldsend, and Clerk Margie Vik. Others Present: Steve Wischman, Pat Dove, Nancy Newman, and Robin Fish from the Enterprise.

3. APPROVAL OF AGENDA: A motion was made by Randall, seconded by Stone, and unanimously carried to approve the agenda with the following additions: Additional Information for Item #4 and added to the Consent Agenda Item #7.14. Approve an Outdoor Concert Permit for A Better Place c/o Cole A. Hanson, at 212 Third Street West, on August 9th, 2018, from 8:00 p.m. to 11:00 p.m.

4. AUDIT REVIEW:

4.1. 2017 Audit Presentation: Steve Wischmann, a partner with the auditing firm Bergan/KDV, stated there are two documents as part of the auditing process, the audited annual financial statements, which is filed with the office of the state auditor, and the communications letter. It has some required communications, emerging issues, and the financial information.

Wischmann stated the audit book contains the auditor's opinion. We are issuing an unmodified or clean opinion on the financial statements, which is filed with the state auditor. There are reports on compliance in this document, including the federal testing we did for the airport grant. You received about \$1.7 million for federal and state aid for the airport grant, as well as other full-time compliance with government auditing standards and the Minnesota legal compliance audit guide. There's a lot of layers of testing that we do from an audit perspective, not just the numbers. There's compliance with Minnesota Statutes to make sure you are adequately collateralized and following proper bid/quote procedures. This is the formal document, which include the management discussion analysis. It is a ten-page summary of the rest of the document. It's prepared by McKinney and Brumbaugh. It talks about what happened during the year like financial trends. My recommendation is to please read those pages after the meeting.

Wischmann stated its management's responsibility for the day to day transactions and recording them in the proper amounts and accounts. It's the auditor's job to look at that information at the end of the year. We do our various tests of the transaction, confirm the balances with the banks, the county, the State of Minnesota, the federal government. We've done sufficient testing to provide an opinion. That opinion is modified or clean. That is the highest level that we issue. It's the best you can receive. To compare with prior years, that is the same assurance that you received in the past. No change in that audit opinion. 90% of our audits received that unmodified opinion. But there are some that do not received that full level of assurance. You do have to maintain your internal controls and your integrity of the information, which you have done a very nice job on.

Wischmann stated we included a report on the results of the audit performed in accordance with Government Auditing Standards and the Federal Airport Grant Audit. From a federal audit standpoint if you receive and spend over \$750,000.00 of federal expenditures you're required to have a special audit. Of those funds, that all tested out fine. There are no issues to report. Part of the government auditing standards you look at the internal controls of the city. Small cities of your size, segregation of duties is always one of those items we report on. You've heard about it in the past and will hear about it in the future. The only way to mitigate that would be to hire more staff. It's just not cost effective. You do a good job with the people that you have. There are those inherent limitations on internal controls. We're not recommending that you change anything. Just realize there are those limitations. Just continue those checks and balances with your transactions and processes that you have.

Wischmann stated the two other comments that we have include audit adjustments. Those are routine, normal closing entries for some of the revenues you received and for some of the escrow accounts. Nothing out of the ordinary. You can use the interim information throughout the year knowing that it's coded in the right fund and for the right amounts so you can make good budget decisions as city government with that.

Wischmann stated our last comment is on the preparation of financial statements which is a 114-page book we prepared on behalf of the city. As a result of that, we have to note that. There's a lot of information in there, such as complex footnote disclosures for the pension obligations and other post-employment benefits. You selected to have us do it since we work with about 75 cities in the state. For you to do it would be cumbersome and time consuming and not worth the effort. We need to let you know that.

Wischmann stated you as management have reviewed and approved the financial statement prior to finalization. We walk through the results with you, you ask the questions. You've done your due diligence with the documents.

Wischmann stated we look at the results of testing for Minnesota Legal Compliance, which is the statutes that you are required to follow. There were no issues noted in 2017. It's about an 80-page document that we walk through at the state auditor's office that is provided to all us local CPA firms in the state. You did a very nice job so keep up the good work with those processes. In the communications letter there was nothing out of the ordinary. We received full cooperation from the staff and city management. No issues, no disagreements. Nothing to report there as well. Regarding emerging issues, there are some new standards that are coming related to leases, and also to post employment benefits. We've done an initial analysis of the city. We don't believe either of those are going to be significant to implement. They will be forthcoming in the next two to three

years. We do have it under control. There's nothing to be done immediately to address those.

Wischmann stated the general fund is the major operating fund of the city. For 2017 total revenues were \$3,395,520.00. It's up about 4.5% over 2016. The major changes in 2017, the tax collections were up about \$101,000.00 due to an increase in the levy. Charges for services increased about \$24,000.00. The miscellaneous fund, which includes licenses, fees, interest income, donations, that was up about \$15,000.00. When you take a five year look you see the total revenues in the general fund has increased about \$671,000.00, or about 24.6%. It gives you a barometer that things are a lot busier in the city. You can see the tax levy increased roughly half of that \$671,000.00. You see the intergovernmental revenues have increased from \$500,000.00 to \$700,000.00. The charges for services have been consistent. Miscellaneous has increased from \$115,000.00 up to \$278,000.00. There's a variety of reasons for that growth over the five years.

Wischmann stated the total expenditures in the general fund in 2017 were \$3,133,596.00. That is a \$63,000.00 increase, or about 2%. So, revenue was up 4.5%, expenditures were up only 2%. That is certainly a good trend that revenues increased more than the expenditures. The composition of the expenditures and the changes between 2016 and 2017 in general government was up about \$16,000.00 for a variety of reasons, such as salaries and benefit costs for a variety of positions, not just administrator but for various positions. Public safety was up \$47,000.00. That was for salaries and insurance. Public works declined about \$70,000.00. There was less road maintenance in 2017. Parks and recreation was down about \$38,000.00. There were some building repairs in 2016 that did not occur in 2017. Capital outlay was \$142,000.00, an increase of \$60,000.00. You purchased a truck and a skidster and some other equipment. The \$142,000.00 is the middle range of the high and the low for the past five years. That does vary from year to year. The expenditures were very close to the budgeted amount. You do a nice job of looking into the future to see what's needed, how you're going to fund that over the long term to minimize those peaks and valleys in the capital outlay expenditures. The revenues were up about \$671,000.00, or 24.6% over five years. On the expenditure side they increased about \$446,000.00, or about 16.6%. Overall, long term, you're seeing revenues outpacing the expenditures. That contributes to your increase in your fund balance reserve levels. That is a very positive trend.

Wischmann stated the key to that, in the general fund, is looking at your budget to actual. It takes the original and final budget and compares it to your actual amounts that were received and expended and then the variances. From a revenue side, your revenues exceeded the budget by about \$257,000.00. Every category was slightly over budget. Miscellaneous was the largest and fairly conservative on that budget line item. The charges for services was about \$51,800.00 over budget due to some increased development. Intergovernmental increased by about \$43,000.00 because of road aid that was not budgeted for in 2017. These are very positive trends from a budgetary standpoint on the revenue side. From the expenditure side, total expenditures were \$9,187.00 under budget. You budgeted \$3,142,783.00. It came in at \$3,133,596.00. Even though general government increased by roughly \$63,000.00 it was only \$27,000.00 over budget. Public safety, public works, parks and rec, were under budget, and then the economic development line item was over budget as well. We have the detailed analysis line by line if you have specific questions, but overall you were very close to budget. After some small

transfers, you budgeted zero change in your fund balance. Your fund balance did increase by about \$215,000.00 this year. That's a positive variance because of the conservative revenue budgeting. We're not recommending any changes to the process that you use. You only have one budget during the year so you don't amend things during the year. You really stick to your initial plan and have done a very nice job.

Wischnann stated your total fund balances did go up about \$215,000.00, to \$2,939,489.00. That's about twelve months of your expenditures, which is a very good number. Included in that is some earmarked fund balances. That's about \$1 million of that \$2.9 million. When you back that out your unassigned fund balance is \$1,959,315.00. That is a barometer that both the state auditor and your particular policy uses as a gauge for your financial health. The state auditor and your policy say a 50% minimum, and you're at about 62.5%. You're slightly over, but not significantly over. Your fund balance meets your minimum threshold and is slightly over. It's a very comfortable amount at about \$1.9 million, after taking out that assigned balances for general government, and some police and some park funds for future commitment to those programs. You've done a very nice job on your fund balance and for meeting your policies. Your fund balance has grown over the past five years very nicely. With the fund balance growing you'd think that the cash balance would also grow. The cash investment balance in the general fund at the end of 2017 was \$865,745.00. You see about a \$2.1 million variance between the fund balance and the cash balance. The major reason for that is the general fund is being the bank for a couple of funds that owe the general fund money, like the airport fund. In 2017 the airport fund had about \$2 million in total expenditures. You do have about \$1.8 million receivable at the end of 2017, which you should have collected already. Basically, the general fund was borrowing that money to cover that and will come back into the general fund now that it's been collected in 2018. It is a temporary timing issue. After year end, the cash balance should be back in the \$2.5 million range. That's the major reason why you have that large variance between the fund balance and the cash investment balance. That's similar to the 2013 and 2014 balances. 2015 and 2016 are a bit closer because there wasn't as much of that interfund borrowing. But 2017 is more consistent with 2013 and 2014 process.

Wischnann stated you receive large chunks of money through property taxes in December/January and then in June/July, hence a spike in the July balances from \$2 million up to \$3.2 million. For eleven months of the year you're in that \$2 to \$3 million range and at the end of the year when you do those interfund loans for accounting purposes that brings that balance down. It shows that for most of the year you have that \$2 to \$3 million cash balance in the general fund.

Wischnann stated your certified tax levy did increase slightly in 2016 and 2017 from \$2,442,679.00 to \$2,456,102.00. The general fund got the majority of that. It was about \$100,000.00 higher. The other funds received slightly less. The tax rate stayed fairly consistent from 71.47% to 73.33%. Meaning that your tax capacity is reality consistent.

Wischnann stated you have four enterprise funds. The self-sustaining utilities funds, water, sewer, storm, and then the liquor fund. The total revenues in the water fund increased about \$51,000.00 to \$693,483.00. Expenses in the water fund declined slightly from \$811,679.00 in 2016 to \$794,720.00 in 2017. That's a \$16,000.00 decrease. A vast majority of the expenditures, half of that at \$491,000.00 is for depreciation, which is that charge to reduce the assets for the use of the infrastructure. As a result, you do show a loss with depreciation of \$101,237.00. When you add that back there's operating income of

\$390,000.00. Year over year, improved results. The net loss is significantly better than in 2014, 2015, or 2016, and very close to the 2013 number. The cash position of the water fund is good. It increased about \$281,000.00. The cash balance is about \$2,481,000.00, which you can use for capital repairs. There is debt of about \$1.9 million in the water fund as well, so you have to pay those debt service payment and interest as well.

Wischmann stated the sewer fund revenues increased about \$56,000.00 from customer usage increase. Expenditures decreased from \$1,324,381.00 in 2016 to \$1,318,822.00 in 2017. Depreciation is over a \$1 million in this fund. It's a very capital-intensive fund with all of the infrastructure systems. You show a large operating loss in depreciation of \$863,000.00. Without that depreciation you do show an operating income of \$150,000.00. Cash in this fund did increase by \$157,260.00, so there about \$1.8 million in the sewer fund. It's been operating very consistently over the period.

Wischmann stated the storm water fund is much smaller in magnitude as far as revenues and expenses. They have been very consistent over the years. The operating revenues and expenses are down slightly. The operating income with depreciation went from \$88,426.00 in 2016 to \$89,953.00 in 2017. Without depreciation it was \$112,543.00 in 2016 and \$115,135.00 in 2017. There are positive operations in this fund.

Wischmann stated in the liquor fund the gross profit sales were \$2,989,000.00 in 2017. That's about \$178,000.00 lower than in 2016. Your cost of goods declined by about \$174,000.00. As a result, your gross profit was fairly consistent, at \$757,727.00. It's down about \$5,000.00 from last year's \$762,515.00. The operating expenses were \$568,344.00, up about \$44,000.00 from last year. Most of that related to repairs. I mention that because it was a one-time expense as opposed to a continual thing like salaries. Your operating income without depreciation was \$229,348.00 and \$189,383.00 with depreciation, so about \$44,000.00 a year charged to depreciation. Overall, roughly \$200,000.00 in income. You did have a \$305,000.00 total transfers out of the liquor fund in 2017. As a result of that the net position or equity did decline about \$112,000.00 solely because of the transfers. The cash position is about \$1,500,000.00 and about \$142,000.00 lower than last year because of the transfers out. Sales are down, but you have a gross profit of 25.3% in 2017. It was 24.1% in 2016. You gain that margin in the liquor fund even though the sales drop slightly. You're right in the range that you have been. Very good operating results. We are seeing that across the board with our municipal liquor stores that sales are flat. The fact that you maintain or even increased your margin in commendable.

Wischmann stated we looked at your overall debt service principal and interest payments. The chart provided is from 2018 to 2036. Your total debt is just under \$18 million. There's a very large chunk in 2018 that will be repaid, just over \$6 million. You have a refunding bond that is coming due in 2018, about \$3.4 million from the 2010 bond. You have that cash sitting in escrow. That's why there's such a large change in 2018. For 2019 and beyond the annual commitments are just over a \$1 million in principal and interest over the next ten years. Then it drops down to \$700,000.00, and then to \$400,000.00. It will be very manageable over the long term. That's something that you will continue to look at when you ask if you should issue new bonds and what is the payment schedule going to look like, how will it affect us long term, and what will the tax assessment be.

Wischmann stated that's a quick summary of the finances. The city is very healthy financially. You've had an overall fund balance increase of \$425,000.00, including your

enterprise funds of about \$745,000.00. You did pay about \$1 million of debt in 2017. The process for the audit went very well. We did struggle to make the state's June 30th deadline, but the state is aware that the audit will be filed shortly, so no problem with that. It's a lot of work for Brumbaugh and the team and we appreciate all of the work that they do to get ready for us. I'll be happy to answer any questions that you have.

Mikesh stated in the communications letter you mention about how we handle transactions by one person. Since we are such a small city is that normal? Wischmann stated it absolutely is. Every city your size receives that same comment. You'll have one or two people doing everything. You can't hire more people because the cost benefit is not practical. Only the very largest cities can have six to ten people in their accounting department and they will not get that comment. We're not recommending that you change anything. Just keep those internal controls going and make sure you have checks and balances. As Council you can be part of that process by looking at the bills and questioning why you're paying something that looks odd to make sure that all of the expenditures are indeed for city purposes.

A motion was made by Randall, seconded by Conway, and unanimously carried to approve Resolution #2018-120 Accepting and Approving the Final 2017 Audit Report for the City of Park Rapids.

5. APPROVAL OF MINUTES:

5.1. City Council Regular Meeting Minutes-July 10, 2018: A motion was made by Leckner, seconded by Conway, and unanimously carried to approve the July 10th, 2018, City Council Regular Meeting minutes as presented.

6. FINANCE:

6.1. Payables & Prepaids: A motion was made by Randall, seconded by Leckner, and unanimously carried to approve the payables in the amount of \$38,487.54, and the prepaids in the amount of \$226,409.68, for a total of \$264,897.22.

7. CONSENT AGENDA: A motion was made by Conway, seconded by Leckner, and unanimously carried to approve the following consent agenda items:

- 7.1. Approve Golf Cart/Class 2 ATV License to Operate in the City of Park Rapids for Allan Wimpfheimer-ATV.**
- 7.2. Approve Backhoe Operator's License to Work in the City of Park Rapids in 2018 for Area Excavating.**
- 7.3. Approve Low Quote in the Amount of \$1,950.00 from KL Concrete for the 2018 Sidewalk Improvements for Various Areas in the City.**

- 7.4. **Approve Purchase in the Amount of \$2,071.36 from Webstaurant Store for Coat Hangers, Tables, and Chairs for the City Council Chambers.**
- 7.5. **Approve Pay Request in the Amount of \$1,000.00 for TKDA for Professional Services Regarding 2018 Pavement Repairs and Apron Lighting Upgrade Project.**
- 7.6. **Approve Pay Request in the Amount of \$12,627.50 for Apex Engineering Group for Professional Services Regarding the Main Lift Station and the TH 71 Frontage Road Projects.**
- 7.7. **Approve Pay Request in the Amount of \$845.69 for BHH Partners for Professional Services Regarding the Pioneer Park Restroom Project.**
- 7.8. **Approve Pay Request in the Amount of \$3,144.76 for BHH Partners for Professional Services Regarding the City Hall Phase II Project.**
- 7.9. **Approve Pay Request in the Amount of \$6,755.50 for Cozen O'Connor for Legal Fees Regarding the Armory Square Project.**
- 7.10. **Approve Pay Request in the Amount of \$93,489.32 for Minnesota Public Facilities Authority for the Water Treatment Facility and the Water Tower Loan Payment.**
- 7.11. **Approve Final Pay Request in the Amount of \$5,750.06 for Gopher State Contractors for Construction Services for the Pioneer Park Restroom Project.**
- 7.12. **Resolution #2018-121 Authorizing Proper City Officials to Execute the Contract Service Agreement to Provide Water Tower Inspections for the City of Park Rapids.**
- 7.13. **Approve Bid in the Amount of \$15,000.00 from Racer Construction for a Storm Sewer Extension Adjacent to Sixth Street, between Highway 71 and Washington Avenue South of Sixth Street, to be Paid out of the Stormwater Fund.**
- 7.14. **Approve an Outdoor Concert Permit for A Better Place c/o Cole A. Hanson, at 212 Third Street West, on August 9th, 2018, from 8:00 p.m. to 11:00 p.m.**

END OF CONSENT AGENDA

8. COMMENTS FROM CITIZENS: Pat Dove stated I'm reporting on the arts. We just finished three weeks of theatre camp collaborating with the Pine Point community. They had their program on Friday in Pine Point and then they came to Park Rapids Armory and had another program. We feel that we are building bridges between the two communities and it's been a good experience. My Fair Lady is coming up this Friday on August 4th at the armory. Most of you probably saw the armory last winter when it was looking pretty desperate and empty. Right now, fifty to sixty volunteers have been in there working, building, painting, etc. You'll find an amazing transformation. We invite you to attend. We are not sold out yet. I believe it will be a good performance which you will enjoy. The music concerts on Thursday afternoons have been going well. That's been another fun thing this summer for the arts.

9. CITY ADMINISTRATOR COMMENTS: McKinney had no comments.

10. DEPARTMENT HEAD UPDATES: Fieldsend stated the city projects are moving along.

Brumbaugh stated I provided you with a spread sheet to show you where the liquor store transfers have gone for the past fifteen years. The state legislature is attempting to get liquor sales in places that sell food. That brings our future into question if that goes through. We transfer about \$220,000.00 per year out of the liquor fund, which is about 7% of our budget. The liquor store is a great asset for us. Our goal is to try to get that at a net zero so our fund balance doesn't lessen. In 2017 and this year it will go down.

11. MINUTES/REPORTS/INFORMATION: There were no comments.

12. COMMENTS FROM COUNCIL: Mikesh thanked the Council for stepping in to take care of things when I'm gone.

13. ADJOURNMENT: A motion was made by Conway, seconded by Stone, and unanimously carried to adjourn the meeting at 6:40 p.m.

[seal]

Mayor Pat Mikesh

ATTEST:

Margie M. Vik
City Clerk