CITY OF PARK RAPIDS
CITY COUNCIL WORKSHOP
JUNE 25, 2019, 5:30 PM
Park Rapids City Hall Council Chambers
Park Rapids, Minnesota

1. CALL TO ORDER: Mayor Ryan Leckner called the Park Rapids City Council Workshop for June 25th, 2019, to order at 5:30 p.m.

2. ROLL CALL: Present: Mayor Ryan Leckner, Councilmembers Tom Conway, Liz Stone, and Robert Wills. Absent: Councilmember Erika Randall. Staff Present: Administrator John McKinney, Treasurer Angela Brumbaugh, Planner Andrew Mack, Liquor Store Manager Scott Olson, Public Facilities Superintendent Chris Fieldsend, and Clerk Margie Vik. Others Present: Steve Wischmann and Robin Fish from the Enterprise.

3. PRESENTATION:

A. Park Rapids City 2018 Audit Review: Steve Wischmann, a Partner with BerganKDV, stated tonight we're going to go through the 2018 audit results. The auditor's responsibility is to provide an opinion on the audited financial statements. The management is responsible for the financial statements. They are responsible for capturing the data putting it in the right accounts for the right amounts and reconciling things on a monthly basis, presenting it to Council for evaluation, and to review budget to actual. We take that annual data and audit it to make sure it's recorded correctly and is in conformance with our standards and in the proper funds. We provide that audit opinion on the financial statements, which is in your packet. We have issued an unmodified or clean opinion of the financial statements, which is the best we can issue. We believe in all material respects the financial statements are fairly presented. One question that sometimes comes up is what do you mean by material respects. It starts out at about 1 ½% and as the numbers get bigger it goes down to ½% point of a number. Hopefully, 1% to 1 ½%, it doesn't mean it's off by 10%. That's a standard in practice that we use that's generally accepted in our industry as to what that material level is.

Wischmann stated there are some other reports that are issued in the back of the book on page 103. There is an internal control report based on government auditing standards because you do receive state and federal funding. We're required to do a little deeper dive and follow government auditing standards for compliance with contracts and grants. Nothing from a compliance aspect for the government auditing standards. There is a couple of things on internal controls, number one is during the course of the audit we did propose and record some audit adjustments that were material over that 1% threshold. Most of it was related to some accounts receivable and related revenues. It was also related to some of the funding debt, transactions that you had this year. You had about $4 million in escrow, that was sitting for a few years, that was released and the debt was retired. We helped out with that. I mention that because it's really just those yearend type of true-up adjustments and not specifically transactions that are in the wrong accounts for the wrong amounts. You can rely on the information that you get on a monthly or quarterly basis to make your sound decisions with. The second one that we always talk about is segregation of accounting duties. With the size of your staff and limited segregation of duties we have to report that as an internal control item. I only issue one audit report without that for the City of Minnetonka. They have nine people doing all of the accounting functions where you have 2 ½ people. We're not recommending that you change anything. There are just limitations based on the size of staff that you have. This is a repeat finding that we have talked about. If anything, it's probably gotten a little better over time because we do talk about the audit process and the controls to make sure that if there are little things that can make it better. We recommend that and you'll implement it with the staff that you have. Nothing from a compliance aspect. There are two levels of compliance that we talk about, government auditing standards, there's nothing there and you've complied with the provisions for contracts and grants. Minnesota legal compliance is another document that the Office of the State Auditor provides to us, independent audit firms in Minnesota, to go through a variety of statutory requirements for deposits, making sure you're adequately collateralized, using proper bid and quote procedures. We had one small finding related to some unclaimed property, an uncashed check over $100.00 that needed to be cleaned up and transferred to the State of Minnesota. They were in the process of taking care of that.

Wischmann stated in addition to that large audit report, there is a book called the communications letter. It has some financial analysis which we will go through. Nothing out of the ordinary as far as the communications letter. We received full cooperation from the city staff regarding the testing that we needed to do. Thank you for taking care of us while we are here.

Wischmann stated what is really important to the Council is the net position of the city is the total equity, assets minus liability, of your financial picture for all funds, both short and long term. At the beginning of the year it was about $40.6 million. It did go down about $217,000.00 to $40.3 million. Not a significant change. It's mostly related to depreciation of your assets in the governmental category. You really don't have funding to replace those at this point. It's very stable this year, which you should be pleased with. We looked at the second point which talks about the government fund and the fund balances, which is more of a budgetary or short term prospective. The actual fund balance did decline almost $4 million this year. The reason for that is because you paid for your 2016 refunding bond this year for $3,925,000.00. You swapped cash with the escrow agent for debt liability. On the short term focus it shows that you did have a disbursement out of $3,925,000.00, but overall, on the big picture that's why it didn't go down $3 million because your cash went down and your debt went down so it washed each other out. It was an accounting treatment that we have to look at. It was contained in the debt service fund. With the call coming up for your new bond that you are considering, what's the long-term debt of the city? It will go down almost $5 million this year, at $3.9 million, plus another $3 million of scheduled debt was repaid, so there is about $12.5 million at the end of 2018. That will be favorable when you talk with your rating agents for your bond rating for your new debt. It's a good long-term picture.

Wischmann stated one thing that we talk about is your tax capacity and your actual levy. Over the prior years tax capacity did grow by about $13,000.00. That increases your tax capacity. Your actual levy is up by $82,000.00, which is a 3.5% increase. Overall about a 10% increase in your tax capacity over five years. The actual levy itself went up about 10.4%. The increase in your tax capacity and the overall levy rate are tracking together which is a positive for your residents.

Wischmann stated the general fund, which is your operating fund for the city, captures everything that doesn't need to be accounted for in a special revenue or debt related fund, or your enterprise operations. Revenues declined a little bit in the general fund by $102,000, to $3.3 million. Expenditures did grow about $42,000.00. The fund balance increased a little after some transfers out by about $39,000.00. The fund balance has been steady over the last four years. Of the fund balance total of $3 million, $2 million of that is unassigned. The other $1 million is assigned for some of your other projects that you have on going for general government, like programs. Your policy says you should have no less than 50% of your unassigned fund balance, that $2 million. You're at roughly 62%. You are in compliance with the no less than 50%, at 62%. That number is within a couple of 1/10's of a percentage point from last year. You should feel very comfortable that the amount stayed the same and you've met your policy of having at least 50% in the fund balance. For that cyclical cash investment position where you receive a lot of your taxes in June and December so there are some months that it goes up and down.

Wischmann stated there was a $102,000.00 decline in the general fund revenues, due to some donations. Local government aid was up a little due to the state allocation of additional aid. The property tax levy was down a little, $2.160 million compared to $2.165 last year, due to a change in the delinquent taxes, from 2017 to 2018. It's still very consistent. Expenditures are up about $42,000.00. Most of those increases were in public safety. It went up $70,000.00 due to some salary increases. The other accounts wash themselves out. Overall very consistent from an expenditure standpoint. Not a lot of new position changes or projects within the general fund.

Wischmann stated in the fall of the year you adopt a levy budget for the various revenues and expenditures in the general fund. We compare that to the actual amounts which shows the overages and under amounts. You set one budget. Your revenues were about $24,000.00 overbudget, which is less than 1%, which is excellent. Anything under 5% is very good, and under 2% is excellent. Expenditures were $60,000.00 underbudget, which is 1.9%. All categories were underbudget with the exception of public safety, which was only over by about $33,000.00. Very nice job on the budget. Overall you projected a transfer of $33,000.00 to other funds a net change of zero and you did add $38,863.00 to your fund balance. Your department heads are knowing what the budgets are and they are managing to that.

Wischmann stated regarding the cash and investment position, your fund balance grew a little this year. Your cash balance actually varies a little because sometimes it's the borrowing fund for other funds that temporarily need some funding before financing comes in. When we look at 2015, 2016, and 2017, with the exception of 2017, you see a linear tend with the fund balance. 2017 was quite a bit lower because the general fund prefunded the airport project for about $2 million. It was a receivable from the state at the end of 2017 and was collected in 2018, and then replenished that. That's the reason for the temporary drop in 2017. If we were to chart the monthly cash balances in the general fund, you would see that December is one of the higher points, was well as June and July. In the spring and fall the cash balances dip back down as you spend the taxes that you collect. A good portion of your tax revenues are generated from taxes.

Wischmann stated the annual debt service is $12.5 million for principal and interest. A nice trend long term shows the debt service stepping down a few times. For the next seven years you're in that $1 million and after that it does start to tapper off. That will change with new bonds you issue. Overall, the trend is downwards rather than trending up.

Wischmann stated your enterprise funds include water, sewer, stormwater, and liquor operations. There are consistent trends from the self-supporting enterprise funds that you maintain. Revenues in the water fund were down about $22,000.00. Expenses were almost that same. We did fund about 74% of your depreciation expense with your operations. You do see a little bit of a loss with depreciation. You've been in the middle range for the last four years. There are good favorable trends there. The cash flow increased in the fund about $300,000.00 this year. That sits at $2.8 million in the water fund for future capital investments, operating needs, etc. A lot of cities like to say they cover 50% of depreciation. You're in that 75% range in the water fund so you've exceeded that a little bit.

Wischmann stated the sewer fund had a significant change in the expenses this year. The revenues were down about $10,000.00, to $445,000.00. Expenses went from $1,318,000.00 to $750,490.00. That's a $568,000.00 decrease. That was solely related to depreciation expense on the Lamb Weston/RDO sewer facility at a $12.4 million capital balance. It was depreciated over twenty years and 2017 was the last year of that. There was no depreciation charged on that. You can continue to expect to see that $750,000.00 as a new benchmark for expenses including depreciation. You covered about 21% of depreciation this year which is significantly higher than you've seen in the past. The cash position in the sewer fund, you did invest in capital assets of about $570,000.00. The cash did decline about $120,000.00 this year and there's about $1.7 million of cash in the sewer fund. Overall reserves are good, reinvesting in the sewer fund. Depreciation will make that fund look better. Depreciation isn't cash either. The cash still needs to be generated from user fees to pay debt service and the operating costs as well.

Wischmann stated the stormwater fund is not as big of a revenue generator, about $120,000.00. There's a $4,000.00 increase in expenses, about $72,000.00, which was up about $46,000.00. You did have some improvements there that were coded to the stormwater fund. Overall, positive operations for the past five years. The cash did increase about $27,000.00 to about $475,000.00 in the stormwater fund. Generally, you accumulated over a period of time and then you spend it back down. You're in an accumulation phase at this point.

Wischmann stated the last enterprise fund is the liquor fund. You had a very successful year in your liquor operations. Sales were up $138,000.00, to about $3.126 million. You broke the $3 million mark in sales. The cost of sales is up about $80,000.00 to $2.311 million. The net of that is the gross profit of $850,00.00. Your expenses are about $2,000.00 lower. As a result of higher gross profit, you did add an increase in operating income with or without depreciation of about $60,000.00. About a $250,000.00 surplus including depreciation in the liquor fund. You transferred out about $550,000.00 for some capital improvements, city hall and the bathrooms in the park. That's the main reason the overall net position declined, not from operations but from intended budgeted transfers. There is about $1,250,000.00 of cash in the liquor fund, down about $233,000.00, $250,000.00 increase, less the $500,000.00 plus capital transfer, reconciles that decline in the liquor fund from the cash position. It's very well managed. There's a big profit percentage of 26.1% which is the highest in the past five years. They have done a very nice job. Your inventory balance is about $472,000.00. That's the product at cost in your store. You do a nice job of managing that inventory level as well. Keeping the product fresh and making sure you have what the people want, but not too much is a positive thing.

Wischmann stated all and all an excellent audit report for 2018. The general fund is up $38,000.00. All of your enterprise funds are operating with surpluses. You reduced some debt this year. Thank you for the opportunity to speak with you. He requested questions from the Council. There were none.

3. ADJOURNMENT: A motion was made by Conway, seconded by Wills, and unanimously carried to adjourn the meeting at 5:55 p.m.

[seal] ________________________________

Mayor Ryan Leckner

ATTEST:

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Margie M. Vik
City Clerk