

**CITY OF PARK RAPIDS
CITY COUNCIL WORKSESSION
OCTOBER 27, 2020, 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 October 27th, 2020, to order at 5:30 p.m.

2. ROLL CALL: Present: Mayor Ryan Leckner, Councilmembers Tom Conway, Erika Randall, Liz Stone, and Robert Wills. Absent: None. Staff Present: Administrator Betty Thomsen, Treasurer Jeremy Jude, Planner Andrew Mack, and Clerk Margie Vik. Others Present: Sue Tomte and Robin Fish from the Enterprise. Appearing via telecommunications: Carolyn Stutsman from BerganKDV.

3. DISCUSSION:

A. 2019 Audit Presentation: Jeremy Jude stated after a lot of work the audit is finally completed. Carolyn Stutsman from BerganKDV will make a presentation to the Council.

Carolyn Stutsman stated we provide an opinion on your financial statements. That opinion is housed within the independent auditor's report. Also, within the report are outlined the management's and the auditor's responsibilities. Management's responsibility is for the preparation of your presentation of the financial statements in accordance with that. Our responsibility is to issue an opinion based on our audit. There is a need for a line to be drawn in the sand as far as our responsibility versus yours. When we look at the timing of this presentation, this really is the root result of that, because Jeremy Jude who's relatively new, he needed to go through and determine what those numbers needed to be first, and then we then could do our piece of it. He did a lot of work and I'm happy that we are at this point to be able to walk through the numbers with you. Thank you for all of that preparation that goes into it and understanding in the process.

Stutsman stated the opinion that we are providing is what's called an unmodified opinion. That's the highest opinion that you can receive, that is not a change from what you have received in previous years. Meaning, we believe the financial statements are fairly stated in all material respects as of December 31st, 2019. In addition to just looking at the numbers as we conducted our audit, we also did our audit in accordance with government auditing standards. That means that we considered internal controls as we went through the process. We have noted two items, material audit adjustments and lack of segregation of accounting duties. They are very common for cities of your size, especially with the transition that did happen this year. One other component of the audit is in relation to Minnesota Legal Compliance. The office of the state auditor puts together seven checklists full of state statutes that we are required to ask a number of questions about. There were no findings in relation to any of these items this year.

Stutsman stated with all of that background, we dug into the actual results for the year and we begin with general fund revenues. Your total general fund revenues increased nearly 18%. Taxes increased a bit in relation to an increase in the levy. Miscellaneous revenues increased about \$134,000.00, which is a result of an increase in investment income with markets having a better year. The largest increase was in your

intergovernmental revenues. You received a state grant that passed through to the Headwaters Regional Development Commission. That flowed through the intergovernmental revenues and you will also see that when we talk about expenditures as well.

Stutsman stated in total the general fund expenditures increased nearly 14%. The largest change being capital outlay, and other expenditures. That's where the economic development expenditures are located, and that's where the flow through of the grant is. Public works did decrease by \$45,000.00. There were less street overlay costs. Public safety does continue to be the largest component in the general fund at 44.1%.

Stutsman stated the general fund budget to actual slide shows the original and final budget of 2019. The original budget that was approved called for a breakeven change in the fund balance. There were no amendments made. The actual budget shows an increase of \$250,00.00, and the variances are also listed. The total revenue variance of \$573,000.00, that's 17.3%. If you look at the intergovernmental line item, that's where the state grant flowed through. On the expenditure side of things, you're going to see on the economic development line where it's going back out. Those are the main reasons for the fluctuations that you are seeing. An additional item in revenues is the miscellaneous, that has to do with the interest revenue and taking a conservative approach within the budget for that interest income, which is very common. As we know that can fluctuate and change very easily. In the end, the fund balance increased \$250,000.00 for the year.

Stutsman stated the total fund balance for the general fund ended the year at \$3.2 million. Of that balance \$2.2 million is considered unassigned, or what's available for future operations, but doesn't have a tag associated with it that you haven't assigned dollars for. That also is how you analyze things in relation to your fund balance policy. Your policy indicates how you have no less than 50% of your operating expenditures in that unassigned fund balance at the end of the year. If we run that calculation for 2019, we're at 66.2%, so you are in compliance for the policy that you have established for yourselves for where you'd like to be in the general fund at the end of the year.

Stutsman stated this chart shows us your tax capacity, levy, and the tax capacity rate. The 2019 tax capacity decreased 2%, and the levy increased about 5%. So, the results of that activity were that you did see an increase in the tax capacity rate for 2019.

Stutsman stated the operating revenues of the water fund increased about \$30,000.00; expenses increased about \$20,000.00. There are a number of different ways you can analyze these funds. The first way that we look at is by comparing the operating loss based on the revenues and the expenses. The expenses include depreciation of about \$470,000.00. If we factor that depreciation expense out, so the comparison is a way to analyze if those operating revenues that you're bringing in for the fund are sufficient to cover all of those operating costs including the depreciation. Every entity will have a different philosophy on where that should be, at 50%, or something different. It's a way to analyze because essentially that's helping to set dollars aside for future replacement of those assets if they were 100% covered. Where you are at with the water fund is that you are covering 67% of depreciation expense for this one. Cash in this fund increased \$88,000.00 for the year. One final way that we can analyze where the fund is at, is to look at the unrestricted net position. Net position is your equity position in your enterprise funds. The unrestricted portion is what's available for future operations. There's another larger portion that's called invested in capital assets and debt. That's the value of your capital assets, net of depreciation and net of the related debt. Those dollars are not available for spending purposes, they are wrapped up in your capital assets. So, if we pull all of that

and arrive at the unrestricted net position and compare where that was in 2018 to where it is in 2019, in the water fund it was an increase of \$86,000.00. So, you are going in the right direction as far as what's available for future operations.

Stutsman stated the sewer fund's operating revenue is down about \$12,000.00 and expenses are down about \$15,000.00. Seeing the operating loss with depreciation at a loss of \$302,712.00, and without the depreciation it's \$76,809.00, you're covering about 20% of depreciation expense for this fund. That is common when we see sewer funds versus water funds, if you analyze your revenue streams and the future replacement of those assets and things of that nature. Cash for this fund did decrease about \$250,000.00. Unrestricted net position increased \$80,000.00 compared to last year.

Stutsman stated the operating revenues in the storm water fund were pretty consistent changing only about \$2,000.00. Operating expenses decreased about \$27,000.00. There were some larger repairs in 2018. This fund is fully covering depreciation expense with the revenues that are being collected. Cash and unrestricted both increased for this fund about \$46,000.00.

Stutsman stated the gross profit percentage in the liquor fund did go down just a bit from 2018. But it's still consistent with 2017, and even back to 2015. So, a little bit of fluctuation through the years, but overall, for the five years presented, it was pretty consistent. Sales were down about \$96,000.00; costs of sales were down about \$50,000.00. Cash did increase about \$345,000.00 for the year. The change in net position was positive as well, at \$231,000.00. The fund varies from one year to the next if a transfer goes to the general fund. For 2019, the liquor fund did not transfer to the general fund. That's part of why you see that fluctuation happening.

Stutsman stated your debt service obligations, based on the current debt that's issued, is a little more intense for a few years, and then goes down, which is pretty common. Total debt including interest payments is just under \$14 million, projected out over twenty years. Your annual payment is \$1.4 million.

Jeremy Jude stated this report is consistent with prior years.

Randall questioned what the material weakness were in the report? Stutsman stated lack of segregation is just going to be in your report with the amount of staff that you have on hand and how those duties can overlap. With the amount of staff that you have, that's very common with cities of your size, even for it to be reported at the level that it is at is very common. Material audit adjustments can fluctuation from one year to the next. With a learning year like this, it's not unexpected there as well.

3. ADJOURNMENT: A motion was made by Stone, seconded by Conway, and unanimously carried to adjourn the meeting at 5:45 p.m.

[seal]

Mayor Ryan Leckner

ATTEST:

Margie M. Vik
City Clerk