

SPECIAL COUNCIL MEETING
CITY OF CROSSLAKE
TUESDAY, APRIL 20, 2011
9:00 A.M. – CITY HALL

The Council for the City of Crosslake met in the Council Chambers of City Hall on Wednesday, April 20, 2011 at 9:00 A.M. The following Council Members were present: Mayor Darrell Schneider, Steve Roe, Rusty Taubert, John Moengen and Dean Swanson. Also present were City Administrator Tom Swenson, Clerk/Treasurer Jenny Max, General Manager Paul Hoge, Community Development Director Ken Anderson, Police Chief Bob Hartman, Public Works Director Ted Strand and Tom Koop and Mary Reedy from LarsonAllen.

1. Mayor Schneider called the Special Meeting to order at 9:00 A.M.
2. Tom Koop and Mary Reedy of LarsonAllen appeared before the Council to present the results of the audit of the financial statements for the year ended December 31, 2010. Ms. Reedy stated that it is their responsibility to plan and perform the audit under governmental auditing standards and to conclude that the financial statements are fairly stated. The auditor is required to report in writing an expressed opinion on the City's internal controls such as segregation of duties. The State Auditor issues the Minnesota Legal Compliance Audit Guide for Local Government that is a guide that must be followed by the auditing firm conducting the audit to ensure that the city complies with all financial statutes. The auditor uses a risk-based assessment which means not every transaction is audited but a sampling of each area is conducted. There were no new reporting standards in 2010 but there will be for 2011 regarding fund balance reporting classification changes. The financial statement includes some estimated numbers pertaining to items such as depreciable assets, compensated absences and other post-employment benefits. In performing the 2010 audit, the auditors had no uncorrected or corrected misstatements and did not encounter any difficulties. Mr. Koop added that it is very important for the Council to realize the auditors did not have to adjust the figures that were given them which means the staff is doing an excellent job at generating good financial data. Therefore, it is the auditor's opinion that the financial statements are fairly stated representing an unqualified audit opinion as noted in the Independent Auditor's Report on Page 2 of the 2010 Financial Statements. It was also noted that in conducting the Minnesota Legal Compliance Audit for Local Governments the City complied with all terms and conditions of applicable legal provisions.

Mary Reedy distributed various graphs to the Council depicting the financial condition of the City both alone and when combined with Crosslake Communications as an enterprise fund of the City. The graphs were presented in full accrual basis which included depreciation expense. It was noted that the financial statement for Crosslake Communications is prepared by Olson Thielen and those audited findings are included in the City's Financial Statement. Ms.

Reedy stated that the City's revenues exceeded expenditures by \$148,216. This is mainly due to an increase in revenues from general property taxes, park dedication funds and donations received by the City. The City's fund balance at the end of 2010 was \$1.5 million dollars which represents approximately six and one-half months of reserves. The State Auditor suggests that cities maintain a minimum of six months of reserves. Mr. Koop noted the increase in the fund balance from 2009 by approximately \$150,000 shows the continued financial stability of the City and that the staff is doing a good job at maintaining expenditures. Mr. Koop also noted the City's ability to not increase the levy from 2009 to 2010 shows great prudence from the staff and their ability to work with the same amount of dollars during a time of continued rising costs.

Ms. Reedy noted the City's total net assets were \$19.8 million of which the majority is comprised of capital assets net of related debt at \$15 million or 74%. Mr. Koop noted this ratio is consistent with the other cities he has audited in that many cities who have kept up with infrastructure improvements are asset intensive in this category. The general fund revenues for 2010 were \$2.9 million with \$2.1 million or 72% of that amount coming from property taxes. Mr. Koop commented that only \$107,000, or 4%, of the general fund revenues were related to state aid which shows that Crosslake is nearly immune to the current state budget problems.

Tom Koop stated that pages 4 – 14 of the Financial Statements give commentary and a detailed Management Analysis of the Financial Statement. Pages 15 – 19 contain a Statement of Net Assets and breaks down expenses by various functions. Page 22 provides a Fund Balance for each fund and also shows the reserve amount of \$1,889,526. Mr. Koop mentioned the Council will see a change in how fund balances are presented on the financial statements with the new accounting standard GASB 54 coming into effect for years ended December 31, 2011. The standard will redefine how fund balances are presented on the financial statements.

The Sewer Fund, which is an enterprise fund of the City, experienced an operating loss of \$201,993. The Sewer revenues of \$197,927 did not cover the expenses of \$399,320 when including depreciation and capital expenditures. Mr. Koop did note that depreciation expense, which is a non-cash item, accounted for \$197,892 of the expenses noted above, and when taken out, the sewer fund's operating loss was only approximately \$4,000. The City did see an increase in revenues over 2009 through the \$3 increase in monthly sewer rates and City Administrator Swenson noted another increase will be considered during the 2012 budgeting process this summer. Mr. Koop noted its important to keep the Sewer Fund self-sustaining and the sewer rates should be sufficient to maintain the Fund's operating expenses.

In reviewing the balance sheet for Governmental Funds on pages 18 – 19, City Administrator Swenson inquired as to the cash balance that has built up over the

past two years in the Tax Increment Financing (TIF) Fund of \$7,290. Mr. Koop stated that it would be good practice to transfer this money to the General Fund as the TIF Fund is more of a working fund that should net to zero at the end of each year. The General Fund handles the administrative aspect of reimbursing the developer the TIF revenue when it is received by the City and should therefore keep the 10% administrative costs retained as part of the TIF agreement. Councilmember Roe asked where the money came from to which Administrator Swenson noted the TIF program is pay-as-you-go and the developer receives the money back over time but the City retains 10% of the revenues. City Administrator Swenson said that going forward the staff will recommend to the Council that whenever there is a reimbursement to a developer there will also be a request to transfer the money to the General Fund to keep the TIF balance at zero. Councilmember Swanson noted this is a good policy to have in place.

Councilmember Roe noted the City is fortunate to have good financial talent on staff and appreciates everyone's hard work. Paul Hoge commented that the City is doing really well and the staff is making the necessary adjustments during these tough times. Mr. Koop reiterated that point by stating everyone shares in tough economic times to varying degrees and keeping the financial stability of the City for the long term is key.

MOTION 04S1-01-11 WAS MADE BY STEVE ROE AND SECONDED BY JOHN MOENGEN TO APPROVE THE AUDIT OF THE 2010 FINANCIAL STATEMENTS FOR THE CITY OF CROSSLAKE. MOTION CARRIED WITH ALL AYES.

City Administrator Swenson addressed the Council regarding a proposed finance policy. As part of the recodification process it was noted the City's current purchasing policy does not accurately reflect the procedures that are in place for making purchases and paying bills. Municipal Code advised that this type of policy should not be included in the city code book but rather in a supplemental policy book. The proposed finance policy more clearly identifies the purchasing requirements that should be followed and will be incorporated into a policy book along with the city code as part of the recodification process. Administrator Swenson noted that the policy was forwarded to LarsonAllen and Mr. Koop noted that it is consistent with other policies he has seen in different cities. Councilmember Swanson noted the proposed policy appears consistent to the current practice of paying bills. Councilmember Roe suggested he would like to see additional verbiage added to the Department Heads section to reference purchasing authority that is provided for in the budget. Clerk Max noted she will incorporate that verbiage into the final policy.

MOTION 04S1-02-11 WAS MADE BY JOHN MOENGEN AND SECONDED BY STEVE ROE TO APPROVE THE FINANCE POLICY AS PRESENTED WITH THE ADDITIONAL VERBIAGE FOR DEPARTMENT HEADS AS

NOTED BY COUNCILMEMBER ROE. MOTION CARRIED WITH ALL AYES.

MOTION 04S1-03-11 WAS MADE BY JOHN MOENGEN AND SECONDED BY DARRELL SCHNEIDER TO ADJOURN THE SPECIAL MEETING AT 10:45 A.M. MOTION CARRIED WITH ALL AYES.

Respectfully Submitted,



Jennifer Max
City Clerk/Treasurer

Deputy Clerk/Minutes/4-20-11 Special.doc