SPECIAL COUNCIL MEETING
CITY OF CROSSLAKE
WEDNESDAY, APRIL 11, 2012
9:00 A.M. – CITY HALL

The Council for the City of Crosslake met in the Council Chambers of City Hall on Wednesday, April 11, 2012 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 and Tom Koop and Mary Reedy from CliftonLarsonAllen. There was one person in the audience.

1. Mayor Schneider called the Special Meeting to order at 9:00 A.M.

2. Tom Koop and Mary Reedy of CliftonLarsonAllen (CLA) appeared before the Council to present the results of the audit of the financial statements for the year ended December 31, 2011. 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 was a new reporting standard in 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 2011 audit, the auditors had no uncorrected or corrected misstatements and did not encounter any difficulties with the staff. 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 2011 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. Regarding internal controls Ms. Reedy noted that CLA does draft the financial statements for the City but that is a common thing for them to do for a city of this size. There is also a limited segregation of duties relating to financial transactions but that is also common based on the amount of staff that is available to do the work. There were no other internal control issues encountered during the audit.

   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 $270,549. This is mainly due to a decrease in general fund expenditures of approximately 10% as compared to 2010. The City's fund balance at the end of 2011 was $1.67 million dollars which represents approximately seven 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 2010 by approximately $270,000 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 decrease the levy from 2010 to 2011 shows great prudence from the staff and their ability to work with less dollars during a time of continued rising costs. Mr. Koop stated that protecting the City's reserves is crucial as the Council probably doesn't want the levy to roller coaster up and down. The City's recent Aa3 bond rating is also a great indicator that the staff is keeping the City in a good financial position.

Ms. Reedy noted the City's total net assets were $20.2 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 2011 were $2.85 million with $2.22 million or 78% of that amount coming from property taxes. Mr. Koop commented that only $108,000, or 3.8%, 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 – 13 of the Financial Statements give commentary and a detailed Management Analysis of the Financial Statement. Pages 14 – 18 contain a Statement of Net Assets and breaks down expenses by various functions. Page 21 provides a Fund Balance for each fund and also shows the reserve amount of $2,160,075. 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 in effect for years ended December 31, 2011. The standard redefines 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 $220,236. The Sewer revenues of $204,736 did not cover the expenses of $424,972 when including depreciation and capital expenditures. Mr. Koop did note that depreciation expense, which is a non-cash item, accounted for $199,846 of the expenses noted above, and when taken out, the sewer fund's operating loss was only approximately $20,000. City Administrator Swenson noted a sewer rate increase will be considered during the 2012 budgeting process this summer. Councilmember Moengen noted he thinks there will be more commercial activity within the City and that would help bring in more revenues. Mr. Koop noted it's important to keep the Sewer Fund self-sustaining and the sewer rates should be sufficient to maintain the Fund's operating expenses.

Mr. Koop concluded by saying that the City had a good audit result and has good, competent staff. The Council should try to limit a roller coaster effect by increasing or decreasing the levy too much in any one year. Mr. Koop also noted that the Council should look towards the future to project future needs and keep the City on a consistent path. Councilmember Swanson noted the City Administrator has done a good job at maintaining the City's reserves, and Councilmember Moengen said the Council should be putting money in reserves for future projects that are coming up in the next few years. Councilmember Roe noted the department heads really keep an eye on their budgets and he is pleased to see the auditors supporting the work they do.

MOTION 04S1-01-12 WAS MADE BY JOHN MOENGEN AND SECONDED BY STEVE ROE TO APPROVE THE AUDIT OF THE 2011 FINANCIAL STATEMENTS FOR THE CITY OF CROSSLAKE. MOTION CARRIED WITH ALL AYES.

MOTION 04S1-02-12 WAS MADE BY JOHN MOENGEN AND SECONDED BY STEVE ROE TO ADJOURN THE SPECIAL MEETING AT 10:06 A.M. MOTION CARRIED WITH ALL AYES.

Respectfully Submitted,

Jennifer Max

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City Clerk/Treasurer

Deputy Clerk/Minutes/4-11-12 Special.doc