

**MINUTES OF THE COMMITTEE OF THE WHOLE MEETING
OF THE ZIMMERMAN CITY COUNCIL
MONDAY, JUNE 11, 2012**

CALL TO ORDER The Committee of the Whole meeting of the Zimmerman City Council was called to order at 7:02 p.m. at City Hall by Mayor Earenfight, followed by the Pledge of Allegiance to the Flag.

ROLL CALL Present: Mayor Earenfight, Council Members, Laney, and Mathison. Members Brisbin and Kowalski were excused absent. Also present were Administrator Piasecki and Clerk/Treasurer Tillmann.

AGENDA APPROVAL **Mathison/Laney unanimous to approve the agenda as presented.**

OPEN FORUM There was no one present to address the Council during Open Forum.

AUDIT PRESENTATION

Matthew Vos, Audit Manager, Abdo, Eick, and Meyers (AEM), LLP, presented the 2011 draft City Audit report. Vos referenced the management letter dated June 11, 2012, advising that their job as the City's audit firm is to give an opinion on the financial statements. According to their testing, the numbers presented are correct and consistent and they are giving an unqualified and clean opinion on the state of the City's finances. Council was reminded of the importance of their involvement and participation in all areas of finance.

Vos reviewed the Management Letter with the City Council. There are three comments related to internal controls in the 2011 audit. The first pertains to segregation of duties in Utility Billing. Auditors encourage staff to continue to monitor and review the operation with the controls that are currently in place. Additionally, staff and the auditor have created, and staff has begun using, a checklist for a more detailed review of utility billing at month end. Vos feels that by using this checklist, the segregation of duties comment will likely be eliminated in the next audit. All the other processes such as payroll, cash receipting, payment processing and investments have substantial checks and balances in place. Every area has been looked at to try to eliminate this finding. This is a hard comment to eliminate because of the small size of the City's Finance Office and the City has one person fulfilling the utility billing function from start to finish.

The other two internal control comments relate to drafting of the financial statements and compliance with MN Statute 118.04 relating to city investments. Comments relating to the preparation of the financial statements are hard to eliminate due to the technical nature of auditing standards under GASB principles. There are good compensating controls in place to help reduce the finding to a significant deficiency. Relating to the investment, the bond rating of one of the City's investments has fallen below the rating considered acceptable. However, the investment is earning interest at a rate significantly higher than what is currently offered in the market. In 2009, Managing Partner Steve McDonald recommended holding the investment and accepting the finding and limited risk associated with it since the investment is unlikely to default. The investment in question is earning a 7% return and matures in 2013. In 2009, the average return was 4% on a 12-month investment. In 2010, the average rate of return dropped even further to less than 2%, and since 2011, 12-month investment rates have hovered around 1%.

Vos noted that this year, only one audit adjustment needed to be completed by audit staff, down from a high of 46 entries five years ago.

In 2011, Council adopted a Fund Balance Policy related to GASB 54. The City's fund balance decreased slightly again in 2011, largely due to reductions in state aids and credits, however budgeted expenditures were also reduced accordingly. Currently, the City's General Fund balance is at about 65%, which is lower than the previous year. The

Council has identified a desire to maintain approximately 50% of Fund Balance as unrestricted for operating expenses, and has committed approximately \$243,000 for specific purposes. Vos pointed out that while expenditures have maintained constant over the past 5 years, budgeted expenses for 2012 are lower than budgeted expenditures in 2007 and 2008 and the General Fund balance has stayed relatively constant.

The cash balance of the Water fund has remained relatively stable over the past three years, and appears adequate for debt requirement and operational needs. The City had \$1.6 million in outstanding debt in the Water Fund at the end of 2011. The cash balance in the Sewer fund is healthy; however the outstanding debt is larger at \$4.3 million. For the next few years, debt service payments will be going up. In 2012, the Sewer debt payment will be about \$388,000 and will increase to \$420,000 for several years beginning in 2013. The City completed a utility rate study in 2011, with a tiered rate system going into effect in January 2012. Audit staff recommends that rates continue to be reviewed annually to ensure they are sufficient to cover operating expenses, annual scheduled debt payments, and future project costs.

Vos commented that City staff were extremely helpful with all aspects of the audit and stated that overall, the audit was very positive. Fund balance deficits are being eliminated, staff has good processes in place and the audit was completed in a reasonable amount of time. City staff is well prepared for field work and works through things very well with audit staff. All the requested information was well put together and easily accessible by audit staff.

Council reviewed upcoming GASB requirements, as identified on page 15 in the management letter.

MAYOR/COUNCIL ITEMS

Upcoming June events:

- Farmer's Market – Tuesdays, Municipal Parking Lot
- Chamber of Commerce Golf Tournament – June 15, Princeton Golf Course
- ZAYAA Baseball Tournament -- June 16-17, City Park
- Butterfly Tour – June 23, Sherburne National Wildlife Refuge

Before adjourning, Mayor Earenfight asked for a moment of silence in honor of US military personnel.

Mathison/Laney unanimous to adjourn the meeting at 7:49 p.m.

Approved this 18th day of June, 2012.

Kary Tillmann, City Clerk/Treasurer