



**City of Newport
City Council Minutes
March 15, 2012**

1. CALL TO ORDER

Mayor Tim Geraghty called the meeting to order at 5:30 P.M.

2. PLEDGE OF ALLEGIANCE

3. ROLL CALL -

Council Present – Tim Geraghty, Tom Ingemann, Bill Sumner, Tracy Rahm, Steven Gallagher

Council Absent –

Staff Present – Brian Anderson, City Administrator; Bruce Hanson, Supt. of Public Works; Mark Mailand, Fire Chief; Renee Helm, Executive Analyst; Fritz Knaak, City Attorney; John Stewart, City Engineer

Staff Absent – Curt Montgomery, Police Chief

4. ADOPT AGENDA

Motion by Gallagher, seconded by Ingemann, to adopt the Agenda as presented. With 5 Ayes, 0 Nays, the motion carried.

5. ADOPT CONSENT AGENDA

Motion by Sumner, seconded by Rahm, to approve the Consent Agenda as presented, which includes the following items:

A. List of Bills in the Amount of \$129,385.31

With 5 Ayes, 0 Nays, the motion carried.

6. VISITORS PRESENTATIONS/PETITIONS/CORRESPONDENCE

7. MAYOR'S REPORT

Mayor Geraghty – I attended the HPC meeting last week and they worked on setting their 2012 goals. One of the big projects is the Veteran's memorial.

8. COUNCIL REPORTS

Councilman Gallagher – I attended a Met Council TAB meeting.

Councilman Sumner – Northern Tier Energy had a community meeting this last week. They continue to upgrade the facility to protect the neighborhoods. They will doing some additional hiring soon.

Councilman Ingemann – No report

Councilman Rahm – No report

9. ADMINISTRATOR'S REPORT

A. Approval of Annual Financial Report for Year Ended December 31, 2011

Jim Eichten of Malloy, Montague, Karnowski, Radosevich, and Co. was present to discuss the Audit Report for Year Ended December 31, 2011 as outlined in the March 15, 2012 City Council packet. A copy of Mr. Eichten's presentation is attached at the end of these minutes. The audit is still being finalized and will be brought before the City Council for approval at an April City Council meeting.

Councilman Rahm – Given that we have a staff of three in our Administrative Department, is there any way we can improve the segregation of duties? Like someone opening the bills, someone approving the invoices and someone paying the invoice?

Mr. Eichten – It's possible. Generally, a city of your size is not able to have that just because of the staff size.

Councilman Gallagher – Have you had experience with cities our size having a finance committee to help with that?

Mr. Eichten – Finance committees are not uncommon for cities and are used by several large cities throughout Minnesota. I typically see the City Council being the finance committee but having separate meetings for it.

Councilman Gallagher – Would that help with the segregation of duties?

Mr. Eichten – It would if the finance committee were to do some accounting work but that would have to be a Council member. I've seen more and more, city councils conducting work sessions to discuss the finances of the city. It provides for more dialogue but I'm not sure of other benefits.

Councilman Sumner – Do you have an idea of how much of a decline we will see in the debt service this year?

Mr. Eichten – I don't off the top of my head but it's available and I can get that to you.

Councilman Gallagher – Do we have the capability to have quarterly updates on the enterprise funds?

Admin. Anderson – We're hoping to have monthly updates by the first meeting in April.

Councilman Sumner – Will we get the revenues and expenditures?

Admin. Anderson – Yes, you'll get the revenue guidelines, the budget control summary, and cash balance statement.

Councilman Sumner – Wouldn't we only see revenues posted quarterly for the enterprise funds?

Admin. Anderson – Money comes in throughout the year for the enterprise funds.

Councilman Rahm – Do we think we can do as a Council to improve the findings for next year?

Councilman Ingemann – I think the findings are good for our office. We can't segregate our office any more unless we hire more people.

Admin. Anderson – I've talked with other cities and they have the same issues with segregating duties.

Mayor Geraghty – Moving forward, what do you think we should focus on in the coming years?

Mr. Eichten – The financial reports that you're talking about are very important. I would make sure that you get them more consistently, which I think will be starting in the coming months. From a financial standpoint, certainly the fund balance policy is important to be consistent. Lastly, I would focus on the enterprise funds and the rates in those areas.

Councilman Gallagher – With your experience, did the Market Value Homestead Credit change impact cities dramatically? If so, how do you see the recovery?

Mr. Eichten – As far as the city, it had minimal impacts on the organization.

Mayor Geraghty – Generally, are we financially moving in the right direction as far as our performance and where we've been in the past?

Mr. Eichten – Your new financial reporting system is a dramatic upgrade from what you had before. Your audit report from this year is very positive.

Councilman Gallagher – You said that the audit report can be done in-house or by a company. I understand that cities our size typically go with an accounting firm. Can our software system generate this?

Mr. Eichten – No.

Admin. Anderson – Again, the quick synopsis is that our revenues were over expenditures by \$477,000 which allowed us to bring our ratio up to 44%. Our EDA fund has grown from \$160,974 in 2010 up to \$537,149 in 2011 and if you add the approved transfer in 2012 it's up to \$787,000. In addition, we continue to look at the Enterprise Funds. Moving forward, we'll be providing financial reports and I'm working with Ehler's to develop financial modeling spreadsheets and graphs. Finally, I would like to take another look at the Parks CIP and create a new Street Maintenance CIP this summer.

B. Discuss the Establishment of a Finance Committee

Attorney Knaak presented on this item as outlined in the March 15, 2012 City Council packet. Attorney Knaak looked at a couple items in regards to the Finance Committee. The first item that Attorney Knaak reviewed was what authority the City Council has in regards to creating a finance committee and what kinds of powers the committee would have. Attorney Knaak found that the City Council cannot delegate items such as budgetary or expenditure approvals to third parties, however it can create advisory boards to assist the Council. The advisory board would make recommendations to the Council, which only take effect upon Council approval. Secondly, Attorney Knaak researched what Minnesota cities have finance committees. Attorney Knaak found that finance committees vary in other cities in regards to the level of participation and responsibility. Additionally, he found that finance committees are most common in larger cities and many cities that he heard from cautioned against forming a finance committee. Finance committees are not common practice in smaller cities such as Newport.

David Engfer, 1390 2nd Avenue – I want to make sure that you understand that my comments are not personal and I'm just trying to address the proposal that we brought forth in December. It was interesting to hear the comments from the auditor, some of them were expected and what we concluded from our analysis. We've also been trying to find cities that have finance committees and have received responses from eleven other cities. Size does not seem to be an indicator. Committees tend to have different structures and different goals and objectives. I would agree that they are all advisory in nature, and that is what our goal is as well. Part of our proposal suggests that someone on the City Council would be appointed as treasurer, which would not be strictly advisory. I wanted to point out a few things that I think support the idea of having a finance committee. The first is what the auditor talked about, which is the fact that we have not had separation of duties in forever. In my opinion, the idea that we have to live with that finding because we have a small staff is a weak argument. You'll notice that it's always listed as a material weakness, which auditors consider somewhat serious in that it could materially affect the integrity of the financial statements. I think the finance committee could help in that regard depending on how you want to set it up and what responsibilities you want to give it or the treasure. The committee could provide another level of review, which would help minimize the risks associated with a lack of separation of duties. I was happy to hear that the City has an accounting system that generates financial statements because I don't know how you manage a \$3 million enterprise without monthly financial statements. The committee could help make sure those statements are done on a timely basis and help review it. You would be more assured that you were getting quality information to base your decisions on. Lastly, we have not been reconciling our bank statements on a timely basis, even though that's required in the City financial policies. That, plus no financial statements and a lack of separation of duties creates an environment where a defalcation could occur. I'm not saying it has but it could and no one in this room would know it. I think that's a serious situation and it could be resolved in part by a

finance committee. Lastly, the City does not have in my view a comprehensive, long-term, financial plan that deals with all the various issues with future investment, particularly with the transit station. I think we need to start now with that. The finance committee could help with that. We have people in the City that have the financial expertise to do that. I recommend that you adopt the proposal that was presented in December.

Mayor Geraghty – Tell me more about what you envision for the structure and membership, who's behind the membership?

Mr. Engfer – I can't recall what I presented in December but we would appoint someone from the City Council, and I said at the time that it wouldn't be the mayor, I wasn't directing that at you specifically, I was directing it to the point to have better separation of duties since the mayor has a lot of duties already.

Mayor Geraghty – What were you advocating for the membership from the community?

Mr. Engfer – Well a member of the Council would be the treasurer and the Council would appoint four more members from the City that have a financial background.

Councilman Gallagher – I think it would make sense that the EDA treasurer would be the treasurer.

Councilman Ingemann – The auditor also said that in regards to separation of duty, we would need a fourth staff member, it could not be a recommending body.

Councilman Gallagher – But he said that one of us could do it.

Councilman Ingemann – As the Council.

Councilman Sumner – Are you volunteering to do that Steve?

Councilman Gallagher – I was saying the EDA treasurer, so Tom.

Councilman Ingemann – Do I get paid extra for that?

Mayor Geraghty – I guess my question was is this proposal coming from the Newco group?

Mr. Engfer – It was an issue that has been discussed there but it's not a primary issue.

Mayor Geraghty – It's one of your things though?

Mr. Engfer – It's one of many. This actually came up long before Newco was formed.

Councilman Ingemann – It sounds like the new software we have takes care of a lot of the questions they had. What happened historically in the past and we have new software that has taken care of the issues.

Councilman Gallagher – What would be the harm to have an interim finance committee for a year to see if it helps? If you look at Woodbury where they also look at the investment portfolio, I think that would help. I'm not an expert and I wouldn't want to be on the committee.

Councilman Sumner – Who are these many experts that will be coming to help?

Councilman Gallagher – How will we know if we don't put it out there?

Councilman Sumner – I'm sure you've been discussing it.

Councilman Gallagher – Has anyone come up?

Mr. Engfer – I know several people but I'm not going to get into it because they haven't agreed to anything.

Councilman Ingemann – It'd be for no cost.

Mr. Engfer – It's like anything, if you put a notice out you may be surprised at who comes forward.

Councilman Sumner – But you just said that you know experts in the City.

Mr. Engfer – There are but I don't know if they would be interested in serving.

Councilman Ingemann – When they find that it takes time with no compensation interest will drop like a rock.

Councilman Sumner – They are always welcome to come to the City Council with their ideas.

Councilman Gallagher – Why are you fighting something where we have volunteers that want to help the City, what's the matter with it?

Councilman Ingemann – They're not trying to help anybody.

Councilman Gallagher – It's people that we would pick to be on the committee.

Councilman Ingemann – I feel that with the software and accounting principles we have, we don't need someone looking over our shoulder.

Councilman Gallagher – Why not? We want to be transparent. No matter what I say you are going to argue with me.

Mayor Geraghty – I think this is a politically motivated action.

Councilman Gallagher – Absolutely nothing I'm saying has been politically motivated so far.

Mayor Geraghty – I think it's a politically motivated action, maybe through Newco, but I think an organization should not have direct ties to this committee. I don't know if we need it. We have plenty of opportunities for the public to be involved. One drawback I see is that every committee puts more work on the staff.

Councilman Rahm – I need to see an actual proposal on what the members will be specifically doing and what problem they are trying to solve and what their charter is. I can't make a decision until I see that.

Mr. Engfer – I just mentioned a number of them.

Councilman Rahm – But I didn't see a structure. I don't want a could be, I want a will be.

Mr. Engfer – We're going to be putting together, we aren't prepared to do so yet, we came here tonight to see what you folks wanted.

Mayor Geraghty – When you say we, who do you mean? You're all part of the Newco group?

Mr. Engfer – There's a number of us here. There's nothing political about this. I'm here speaking to the merits of the proposal and it has not politics in it. We plan on putting together a report that will answer all of your questions. In my view, simply having a good accounting software does not protect the integrity of financial statements and that is what the issue of segregation of duties goes to, that's the basis of having segregation of

Councilman Gallagher – I see this totally different than everyone else. This is an opportunity for more citizens to come in and help the City. What's the harm if someone comes in once a quarter to help and give advice? I would love to have that. It's not politically motivated.

Mayor Geraghty – I think it is.

Councilman Gallagher – What would that accomplish?

Councilman Sumner – I'm just very surprised that all of a sudden there is a desire to have a separate organization. Presentation of information is always appreciated but all of the avenues we have are not currently utilized and I know there are committees where we have to search for membership.

Councilman Gallagher – So why don't we find out if there are people out there?

Councilman Sumner – Do you have feeling that there are people out there?

Councilman Gallagher – Yes and I want to get people who are financially capable of being on the board.

Councilman Sumner – Line up the interested people and have them make a presentation.

Councilman Gallagher – Great, let's put it in the next newsletter.

Mayor Geraghty – I think we need to make a decision as to whether or not we're going to go down that road. I don't want to waste anyone's time

Councilman Rahm – Again, I need a proposal before I can make a decision.

Mr. Engfer – We're going to issue a report and you can do with it what you wish. I'll emphasize again that this is not political, we're just expressing concerns. Get on the website and tell me if you can find some real financial data, you can't.

Councilman Gallagher – That is coming.

Mayor Geraghty – Have you looked at it lately?

Mr. Engfer – Yesterday

Councilman Sumner – And you didn't find anything?

Mr. Engfer – I don't see a year-to-date PNL, a balance sheet, any financial plan.

Councilman Ingemann – Do you get that from other cities?

Mr. Engfer – Possibly

Councilman Ingemann – What do you mean possibly, it's a yes or no.

Mr. Engfer – I would assume if you went to Minneapolis and St. Paul's website you would find the information. What other cities do is irrelevant. The question is what are we doing here and what can we do? I believe we can improve the financial status of the city, it's not rocket science. We're not making it a political thing.

Councilman Rahm – I agree with that because it's an advisory role and not political.

Mr. Engfer – Yes, but you have to be willing to listen.

Councilman Gallagher – I would like someone to help with financial items such as bonding packages.

C. Public Hearing – To consider an amendment to Chapter 2, Administration and Operations, of the City of Newport Code of Ordinances.

Executive Analyst Helm presented on this item as outlined in the March 15, 2012 City Council packet. Currently, the City is divided into two voting precincts. Prior to the 2011 School District Elections, it was requested that the City review the possibility of combining the two precincts, with the polling place being Newport Elementary. City staff worked with Washington County and Independent School District 833 and brought forward a draft ordinance which combines the two precincts and makes the polling place Newport Elementary.

The Public Hearing opened at 7:00 p.m.

Tom Kadlec, 1036 Catherine Drive – I'm an election judge and the polling places are ridiculous. During the primary and off-year elections, we get 90 voters and it doesn't make sense to have two polling places. The only time that we'll get anyone is during the general election. I strongly recommend you combine them.

Councilman Sumner – Councilman Rahm, you've been a judge before, do you see any problem with combining them?

Councilman Rahm – No, I think it's a good idea, having two places is redundant.

Councilman Sumner – The school has agreed to be the polling place?

Executive Analyst Helm – Yes

Councilman Gallagher – And it's during the school day? Do we have to pay for a janitor to be there later?

Executive Analyst Helm – No

Councilman Rahm – It also eliminates confusion.

Councilman Gallagher – So we'll just need to send this to the County correct?

Executive Analyst Helm – Yes, I'll also send it to the State and the County will mail out notifications to the residents.

Councilman Gallagher – And we can do this Fritz?

Attorney Knaak - Yes

The Public Hearing closed at 7:03 p.m.

Motion by Sumner, seconded by Rahm, to approve Ordinance No. 2012-4 amending Chapter 2, Administration and Operations. With 5 Ayes, 0 Nays, the motion carried.

10. ATTORNEY'S REPORT – No Report

11. POLICE CHIEF'S REPORT – No Report

12. FIRE CHIEF'S REPORT – No Report

13. ENGINEER'S REPORT

John Stewart – MnDot is running a couple weeks behind for the North Ravine project. We're anticipating that they'll begin work around April 10.

Councilman Sumner – I just want to make a comment in regards to the last rainstorm. We were very close to having another flood disaster. We do have a public hearing on April 5 in regards to the proposed assessment.

14. SUPERINTENDENT OF PUBLIC WORKS REPORT

Superintendent Hanson – We're working on the sanitary sewer slip lining along the river. We've got about 25% completed.

15. NEW/OLD BUSINESS

Councilman Ingemann – Could the City Administrator comment on the deer survey?

Admin. Anderson – They counted 75 deer, there was a multiplier of 30%, which brings it up to 95 deer. There is only 1.6 square miles of habitat so that comes out to 58 deer/square mile. We're supposed to have 10-20 deer/square mile. This will be brought back at a future meeting.

Councilman Gallagher – Could the Parks Board look at allowing hunting in the parks?

Admin. Anderson – If that's what the City Council would like them to do.

Councilman Gallagher – It looks like a majority of the deer are in City parks.

16. ADJOURNMENT

Motion by Sumner, seconded by Rahm, to adjourn the regular Council Meeting at 7:07 P.M. With 5 Ayes, 0 Nays, the motion carried.

Signed: _____
Tim Geraghty, Mayor

Respectfully Submitted,

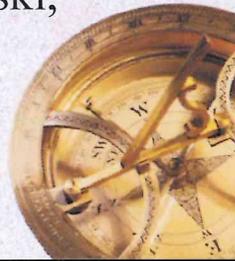
Renee Helm
Executive Analyst



City of Newport
Audit Report
Year Ended December 31, 2011

Malloy, Montague, Karnowski,
Radosevich, & Co., P.A.

James H. Eichten, CPA



Auditor's Role

- **Opinion on Financial Statements**
 - **Financial Statements are Fairly Presented in Accordance with U.S. GAAP**

- **Testing of Internal Controls and Compliance**
 - **Internal Controls over Financial Reporting**
 - **Compliance with Laws and Regulations related to Financial Reporting**
 - **Minnesota Legal Compliance**

- **No Single Audit of Federal Awards for 2011**



Audit Results

● Findings - Internal Controls

- Segregation of Duties
- Preparation of Financial Statements

● Findings - MN Legal Compliance

- Timely Payment of Invoices
- Subcontractor Language in Contracts



Audit Results

● Follow-Up on Prior Year Findings

- Documentation of Internal Controls
- Signed Declaration on Timecards
- Out-of-State Travel Policy



Management Report

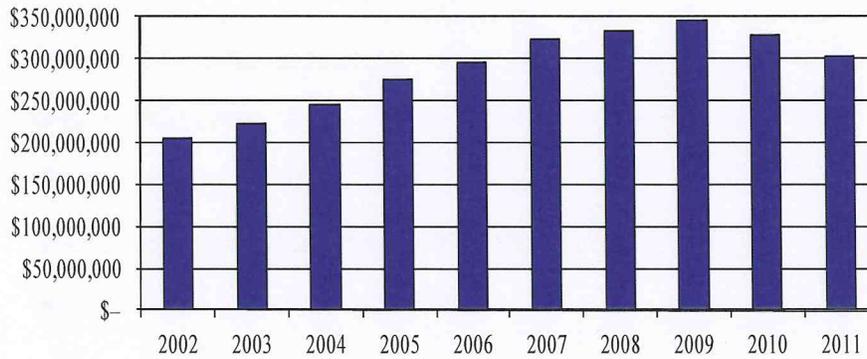
● Audit Summary

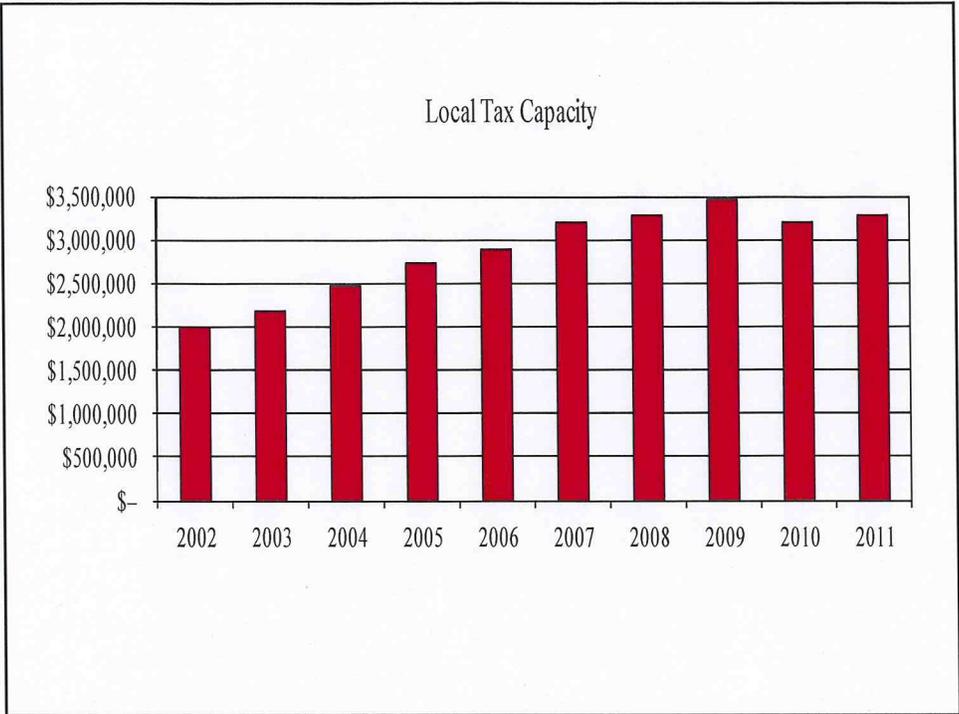
- Met Planned Scope and Timing
- Significant Accounting Policies
 - Implemented GASB Statement No. 54
- No Difficulties in Completing Audit

● Legislation

● Property Taxes

Taxable Market Value







MMKR
CERTIFIED PUBLIC
ACCOUNTANTS

Tax Rates

Rates expressed as a percentage of net tax capacity

	All Cities State-Wide		Seven-County Metro Area		City of Newport	
	2010	2011	2010	2011	2010	2011
Average tax rate						
City	39.2	42.5	36.0	40.0	53.6	60.3
County	41.0	43.7	36.8	42.1	27.8	29.8
School	23.0	25.2	24.0	26.8	31.7	35.2
Special taxing	5.9	6.4	6.5	8.1	4.5	4.7
Total	<u>109.1</u>	<u>117.8</u>	<u>103.3</u>	<u>117.0</u>	<u>117.6</u>	<u>130.0</u>



Management Report

- **Audit Summary**
- **Legislation**
- **Property Taxes**
- **Governmental Funds Overview**



Governmental Funds Revenue per Capita With State-Wide Averages by Population Class

Year	State-Wide			City of Newport		
	December 31, 2010			2009	2010	2011
Population	2,000–2,500	2,500–10,000	10,000–20,000	3,534	3,435	3,435
Property taxes	\$ 367	\$ 386	\$ 359	\$ 480	\$ 537	\$ 732
Tax increments	38	45	52	106	119	–
Franchise and other taxes	7	26	34	–	–	–
Special assessments	73	74	60	80	74	67
Licenses and permits	17	19	22	16	28	24
Intergovernmental revenues	399	291	271	355	230	253
Charges for services	106	89	83	22	19	23
Other	101	73	70	29	29	65
Total revenue	\$ 1,108	\$ 1,003	\$ 951	\$ 1,088	\$ 1,036	\$ 1,164



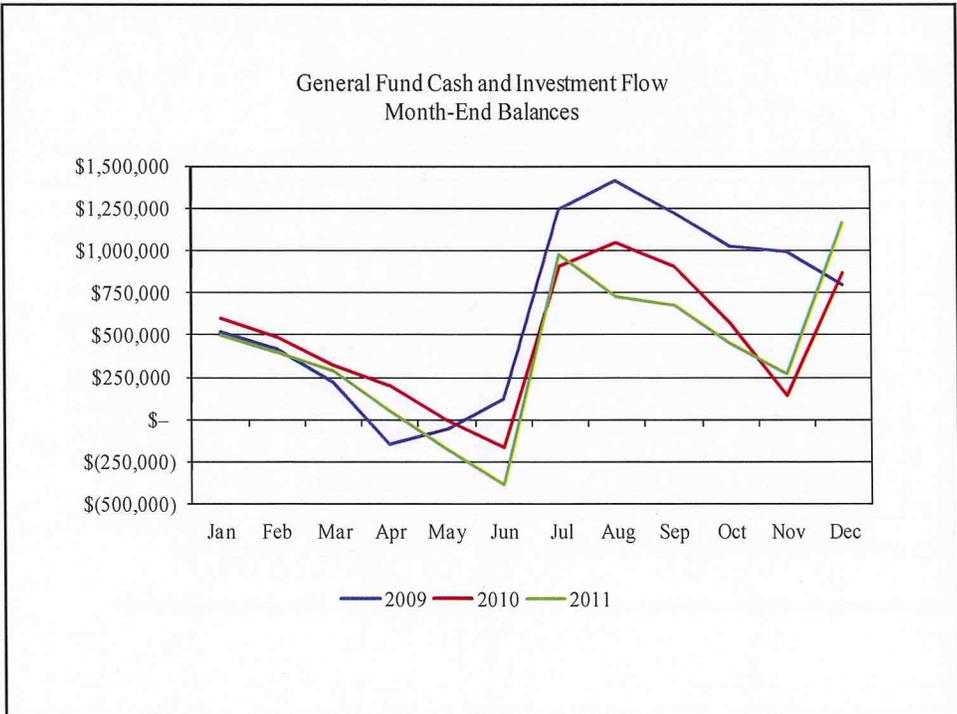
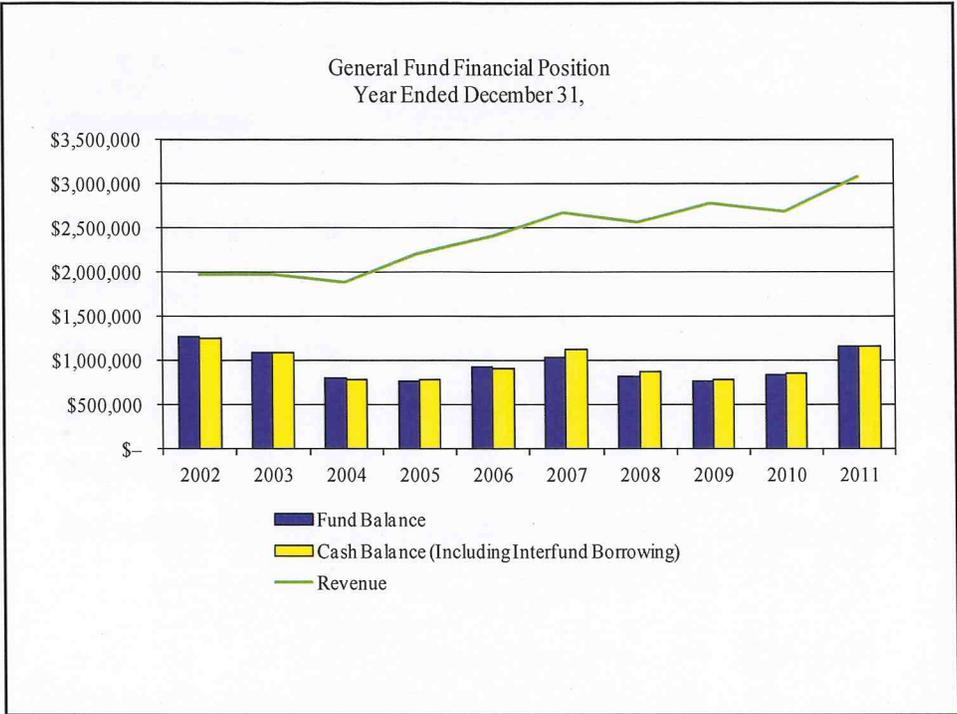
Governmental Funds Expenditures per Capita
 With State-Wide Averages by Population Class

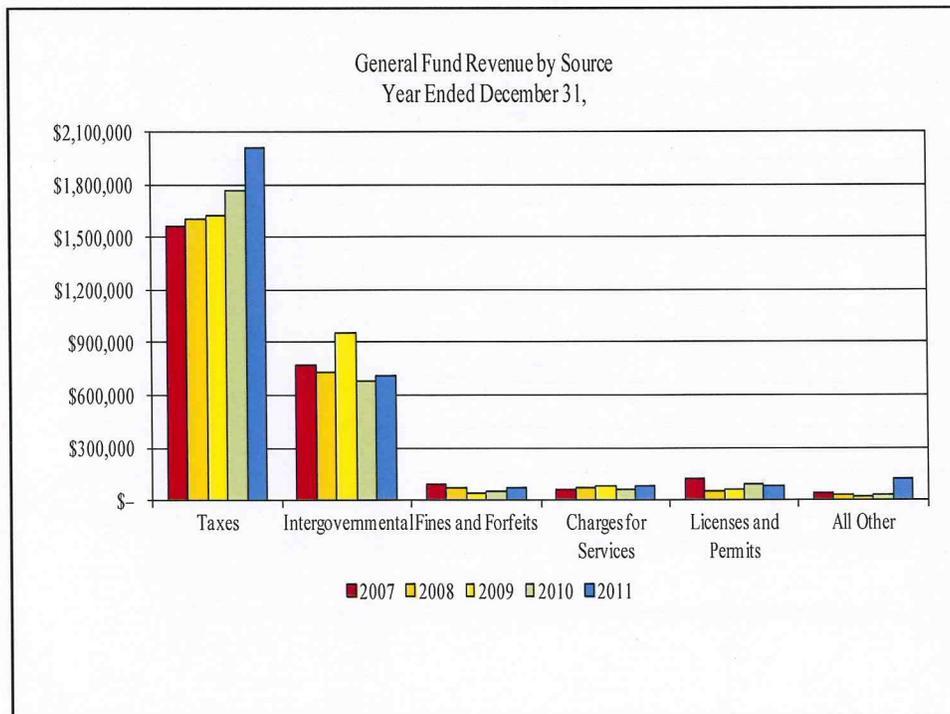
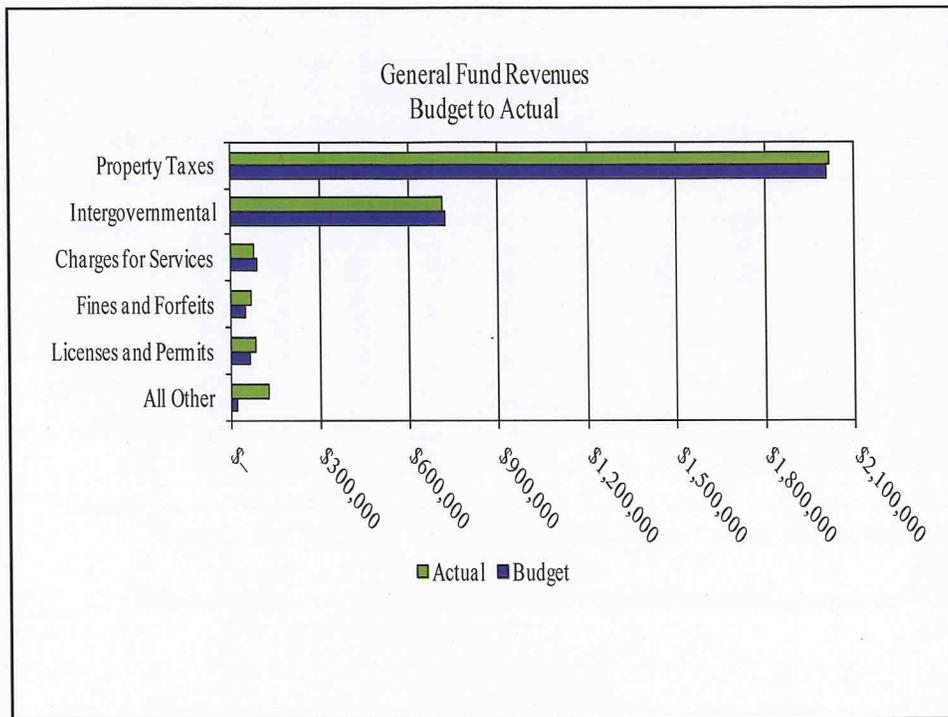
Year	State-Wide			City of Newport		
	December 31, 2010			2009	2010	2011
Population	2,000-2,500	2,500-10,000	10,000-20,000	3,534	3,435	3,435
Current						
General government	\$ 161	\$ 125	\$ 102	\$ 258	\$ 225	\$ 423
Public safety	247	227	223	276	284	288
Street maintenance and lighting	129	108	107	113	116	131
Parks and recreation	91	75	93	83	94	103
All other	90	81	81	-	-	-
	<u>\$ 718</u>	<u>\$ 616</u>	<u>\$ 606</u>	<u>\$ 730</u>	<u>\$ 719</u>	<u>\$ 945</u>
Capital outlay and construction	\$ 333	\$ 299	\$ 321	\$ 168	\$ 21	\$ 74
Debt service						
Principal	\$ 234	\$ 180	\$ 181	\$ 217	\$ 229	\$ 251
Interest and fiscal	82	63	53	41	39	16
	<u>\$ 316</u>	<u>\$ 243</u>	<u>\$ 234</u>	<u>\$ 258</u>	<u>\$ 268</u>	<u>\$ 267</u>

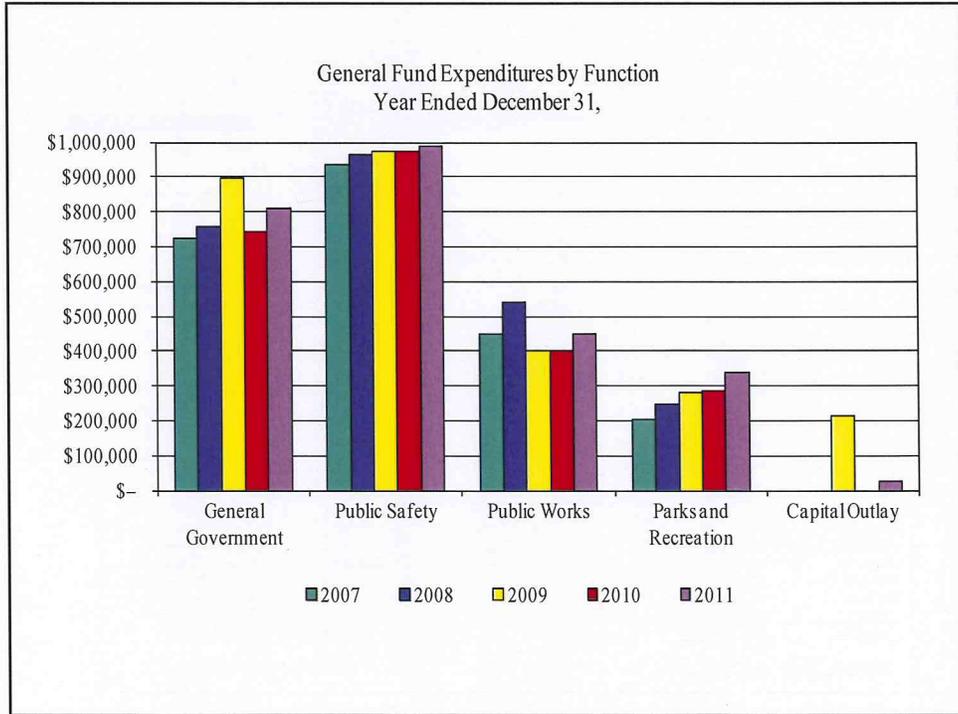
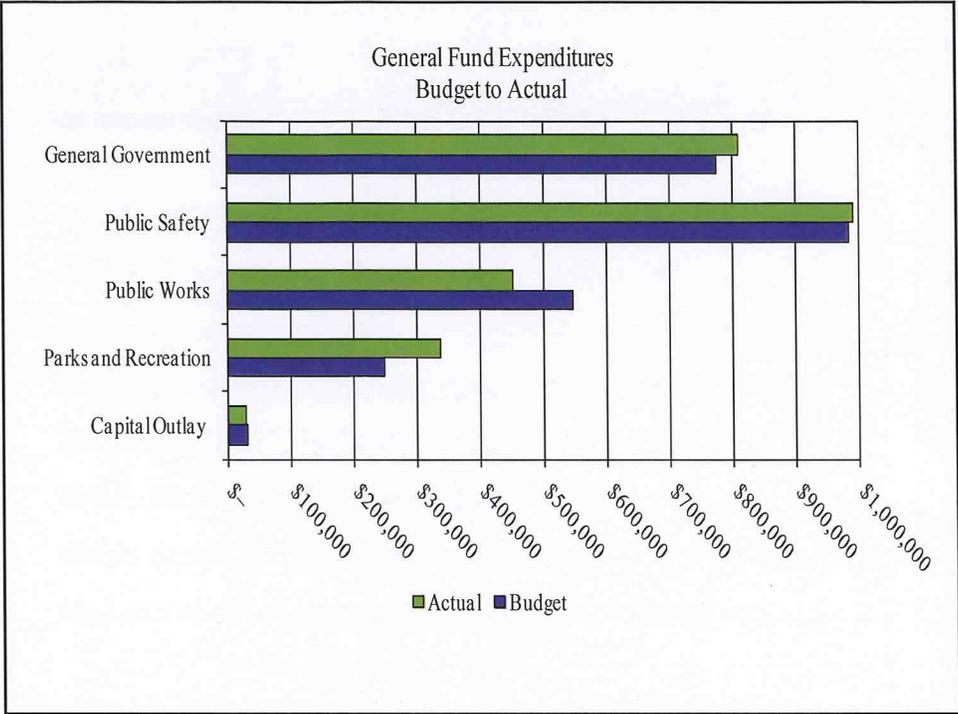


Management Report

- **Audit Summary**
- **Legislation**
- **Property Taxes**
- **Governmental Funds Overview**
- **General Fund Overview**





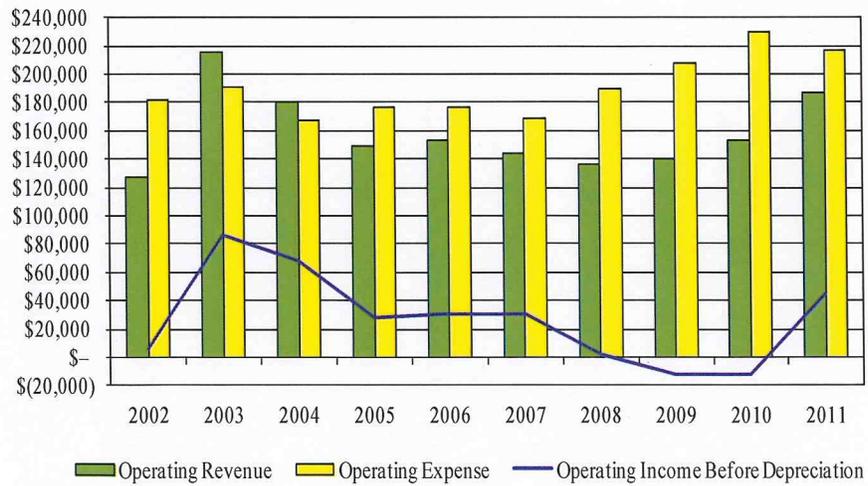


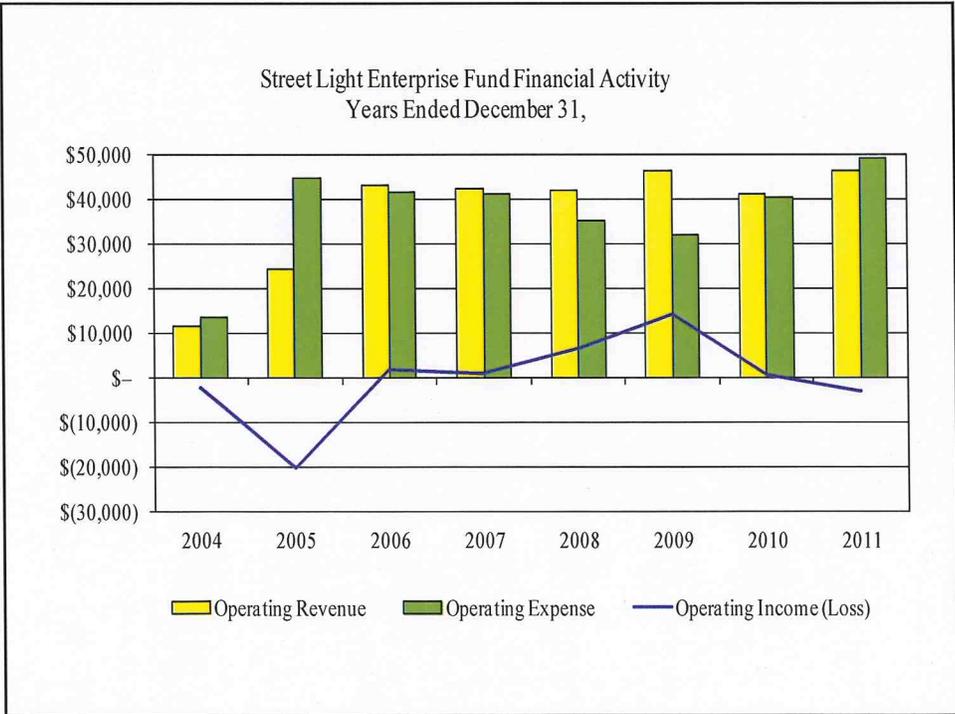
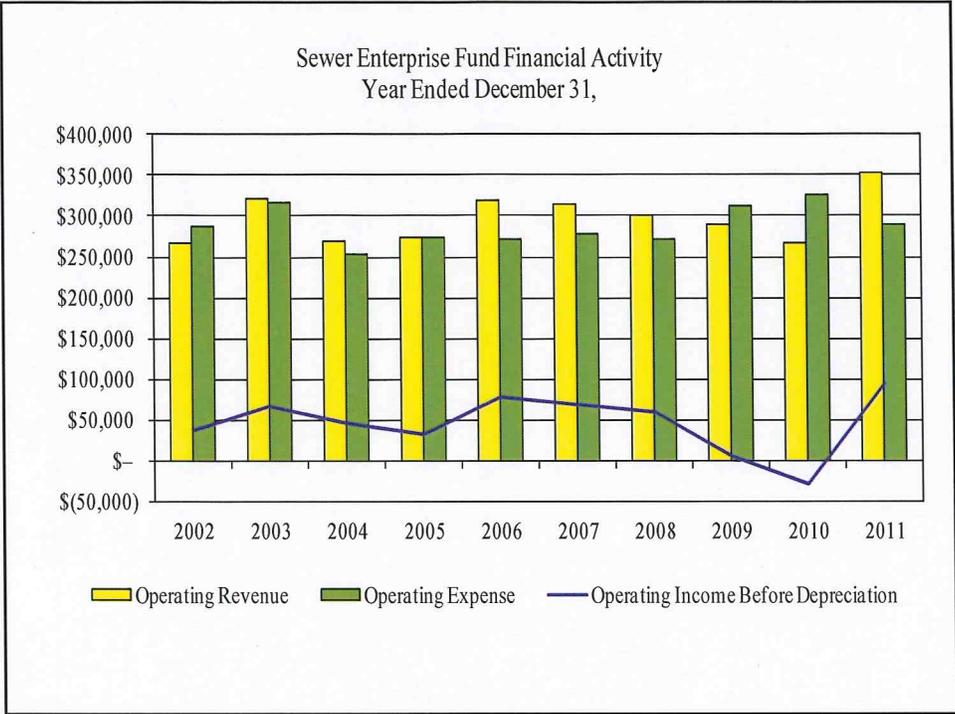


Management Report

- **Audit Summary**
- **Legislation**
- **Property Taxes**
- **Governmental Funds Overview**
- **General Fund Overview**
- **Utility Fund Overview**

Water Enterprise Fund Financial Activity
Year Ended December 31,







Management Report

- Audit Summary
- Legislation
- Property Taxes
- Governmental Funds Overview
- General Fund Overview
- Utility Fund Overview
- Overall Financial Analysis
- Accounting and Auditing Updates



City-Wide Financial Results

	2011		2010	
	Expenses	Program Revenues	Net Change	Net Change
Net (expense) revenue				
Governmental activities				
General government	\$ 1,451,040	\$ 144,149	\$ (1,306,891)	\$ (706,251)
Public safety	1,077,866	138,060	(939,806)	(836,356)
Public works	1,287,291	467,046	(820,245)	(1,121,570)
Parks and recreation	411,632	2,853	(408,779)	(311,950)
Interest on long-term debt	73,902	-	(73,902)	(118,446)
Business-type activities				
Water	225,948	186,792	(39,156)	(76,353)
Sewer	294,221	352,219	57,998	(59,888)
Other	51,226	58,390	7,164	19,994
Total net (expense) revenue	\$ 4,873,126	\$ 1,349,509	(3,523,617)	(3,210,820)
General revenues				
General property tax			2,321,398	2,269,517
Unrestricted grants and contributions			564,773	607,293
Investment earnings			34,203	80,350
Gain (loss) on sale of capital assets			-	(7,794)
Other revenues			141,349	14,553
Total general revenues			3,061,723	2,963,919
Change in net assets			\$ (461,894)	\$ (246,901)



Summary

- **Clean Opinion on Financial Statements**
- **Discussion of Findings**
- **Continue to Assess and Improve Internal Controls and Financial Reporting**
- **Financial Results Indicate Adherence to Budget**
- **Improving General Fund Financial Condition**
- **Improving Overall and Enterprise Fund Financial Trends**