

CITY OF MOUNTAIN LAKE
MOUNTAIN LAKE, MINNESOTA
REQUIRED COMMUNICATIONS
AND FINANCIAL ANALYSIS
For the Year Ended December 31, 2020

CITY OF MOUNTAIN LAKE
REQUIRED COMMUNICATIONS

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June 7, 2021

Honorable Mayor and
Members of the City Council
City of Mountain Lake

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Mountain Lake for the year ended December 31, 2020. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and the Uniform Guidance), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated December 18, 2020. Professional standards also require that we communicate to you with the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by City of Mountain Lake are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2020. We noted no transaction entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the regulatory basis financial statement's was:

Management's estimate of the accumulated depreciation and related depreciation expense accounts are based on estimated useful lives of the related capital assets. We evaluated the key factors and assumptions used to develop the accumulated depreciation and related depreciation expense accounts in determining that it is reasonable in relation to the financial statements taken as a whole.

Honorable Mayor and
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June 7, 2021

Management's estimate of the net pension liability and related deferred outflows of resources related to pensions and deferred inflows of resources related to pensions are based on the City's proportionate share of the plans net pension liability and related deferred outflows of resources related to pensions and deferred inflows of resources related to pensions. We evaluated the factors and assumptions used to develop the proportionate share and the related net pension liability and related deferred outflows of resources related to pensions and deferred inflows of resources related to pensions in determining that it is reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion units financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated June 7, 2021.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City of Mountain Lake's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Honorable Mayor and
Members of the City Council
June 7, 2021

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as City of Mountain Lake's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to the budgetary comparison schedule, schedule of proportionate share of the net pension liability, and schedule of contributions, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on combining fund financial statements and summary financial report, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We were not engaged to report on elected and appointed officials, which accompany the financial statements but is not RSI. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Restriction on Use

This information is intended solely for the use of City Council and management of City of Mountain Lake and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Oberloh & Oberloh, Ltd.

Oberloh & Oberloh, Ltd.

CITY OF MOUNTAIN LAKE
FINANCIAL ANALYSIS

**City of Mountain Lake
Mountain Lake, Minnesota**

**Financial Analysis
December 31, 2020**

The following pages provide a graphic representation of certain financial data pertaining to the City's operations.

Our analysis of each graph is presented to provide a basis for discussion of past performance and so future performance may be enhanced by implementing certain changes. A subsequent discussion of this information should be useful for planning purposes.

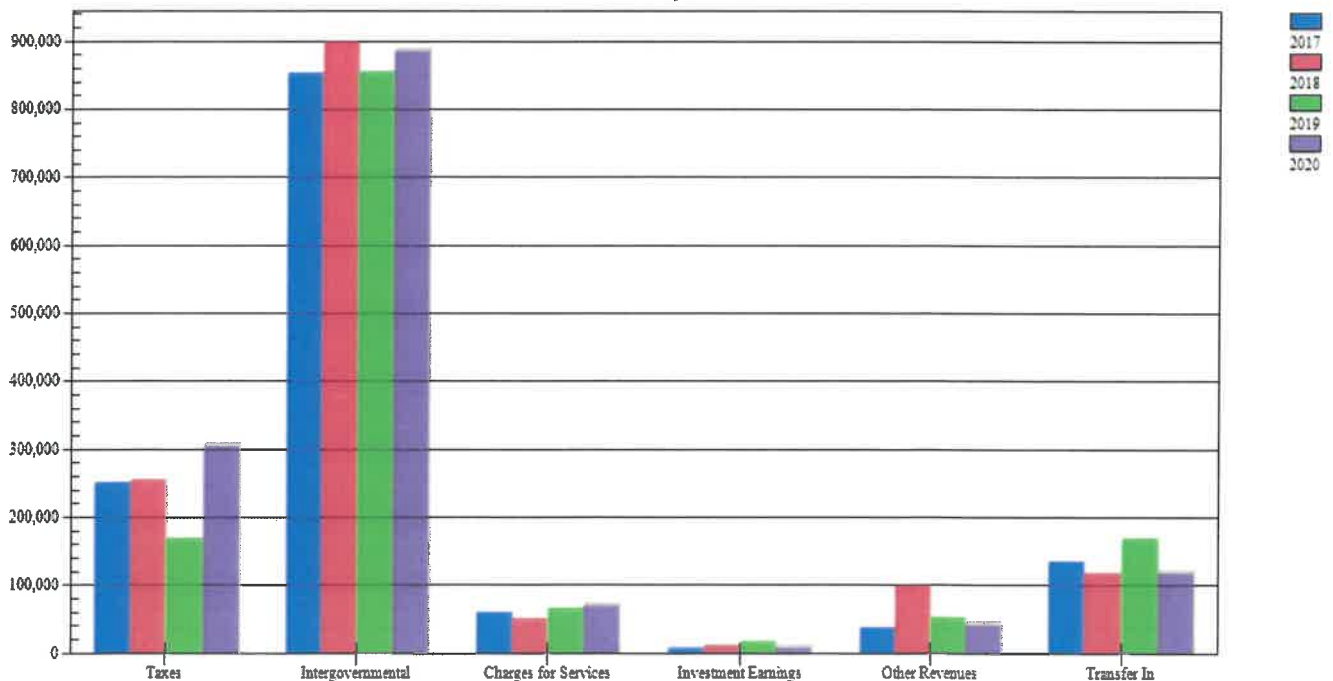
GENERAL FUND

In 2020, the City's General Fund experienced a 7.5 percent increase or \$99,673 in revenues from \$1,333,169 to \$1,432,842. The following graphs illustrate the source of the revenues for the past four years. Revenues from taxes increased 79.6 percent or \$135,367. Intergovernmental revenues increased due to the increase in local government aid. Revenues from other sources decreased 11.5 percent, due primarily to a decrease in other revenues and investment earnings over the increase in charges for services.

A comparison of General Fund revenues for the past four years is presented below:

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	2020 Percent of Total
Taxes	\$ 252,172	\$ 256,972	\$ 170,114	\$ 305,481	21.32
Intergovernmental	855,523	900,966	856,017	885,680	61.82
Charges for Services	60,045	50,696	66,504	70,672	4.93
Investment Earnings	9,371	11,449	17,606	8,516	0.59
Other Revenues	38,934	100,633	53,368	42,493	2.97
Transfer In	<u>136,360</u>	<u>120,000</u>	<u>169,560</u>	<u>120,000</u>	<u>8.37</u>
Total Revenues	<u>\$1,352,405</u>	<u>\$1,440,716</u>	<u>\$1,333,169</u>	<u>\$1,432,842</u>	<u>100.00</u>

Revenues by Source



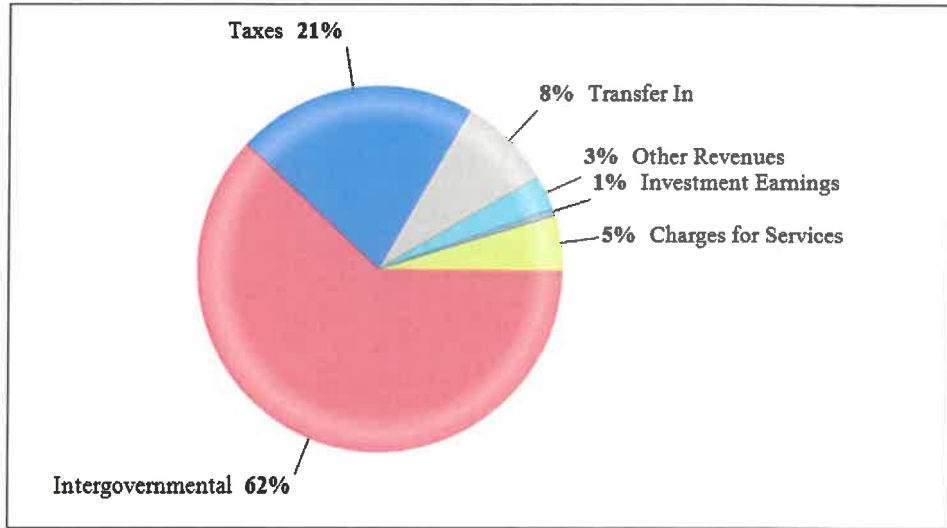
**City of Mountain Lake
Mountain Lake, Minnesota**

**Financial Analysis
December 31, 2020**

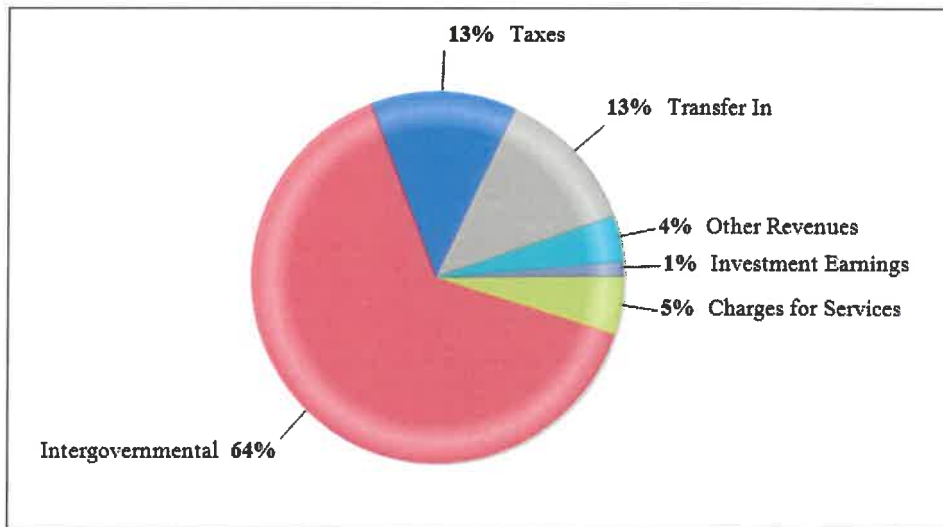
GENERAL FUND (Cont.)

Revenues as a percent of total for 2020 and 2019 are as follows:

**General Fund
2020 Revenues**



**General Fund
2019 Revenues**



**City of Mountain Lake
Mountain Lake, Minnesota**

**Financial Analysis
December 31, 2020**

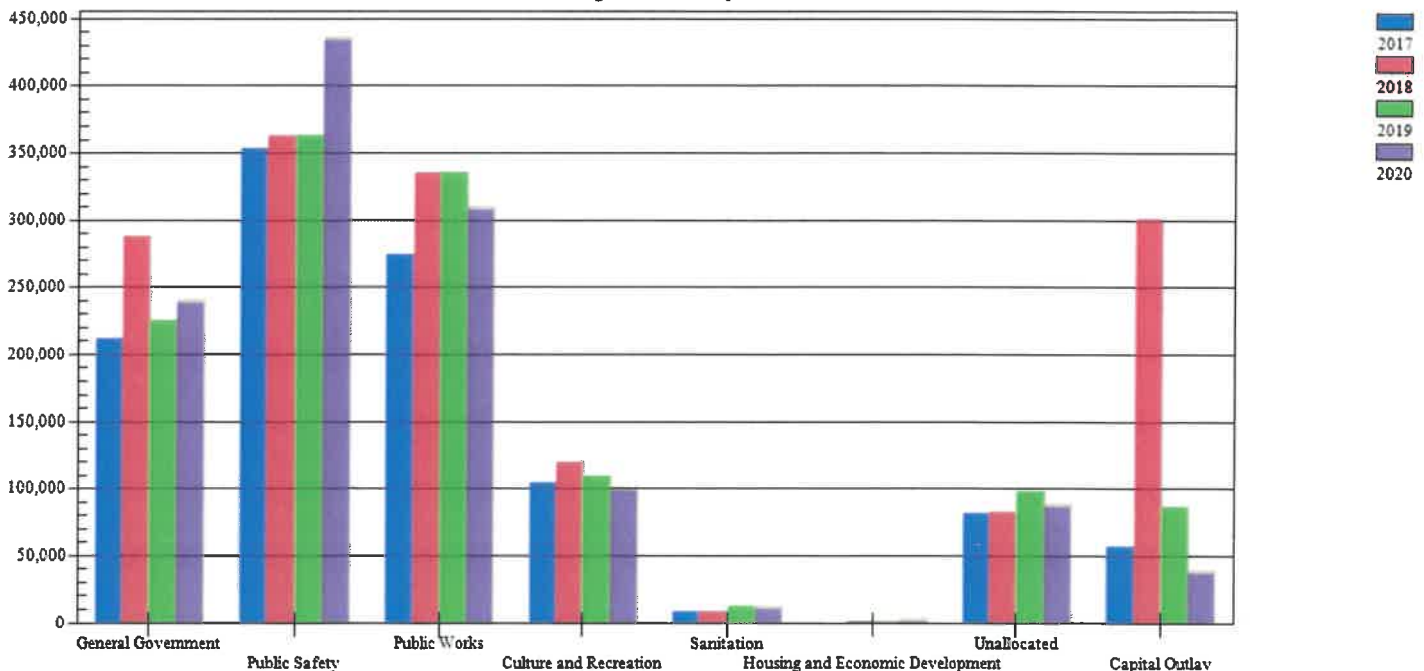
GENERAL FUND (Cont.)

Total General Fund expenditures decreased from 2019 to 2020 from \$1,337,245 to \$1,325,995 or 0.8 percent. The graphs illustrate the expenditure breakdown for the past four years. We recommend the City continue to be conservative in its spending and be aware of the possible future budget cuts at the state level.

A comparison of General Fund expenditures for the last four years is presented below:

<u>Program</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2020 Percent of Total</u>
Current					
General Government	\$ 212,237	\$ 288,670	\$ 225,689	\$ 238,811	18.01
Public Safety	353,754	363,132	363,604	434,227	32.75
Public Works	275,277	335,835	335,968	308,244	23.25
Culture and Recreation	105,390	120,123	109,539	99,593	7.51
Sanitation	9,199	9,484	12,697	10,505	0.79
Housing and Economic Development	-	1,250	1,250	1,250	0.09
Unallocated	<u>81,824</u>	<u>82,891</u>	<u>98,038</u>	<u>86,760</u>	<u>6.54</u>
Total Current	1,037,681	1,201,385	1,146,785	1,179,390	88.94
Capital Outlay	57,454	301,117	86,512	37,518	2.83
Transfer Out	<u>108,128</u>	<u>112,381</u>	<u>103,948</u>	<u>109,087</u>	<u>8.23</u>
Total Expenditures	<u>\$1,203,263</u>	<u>\$1,614,883</u>	<u>\$1,337,245</u>	<u>\$1,325,995</u>	<u>100.00</u>

Expenditures by Function



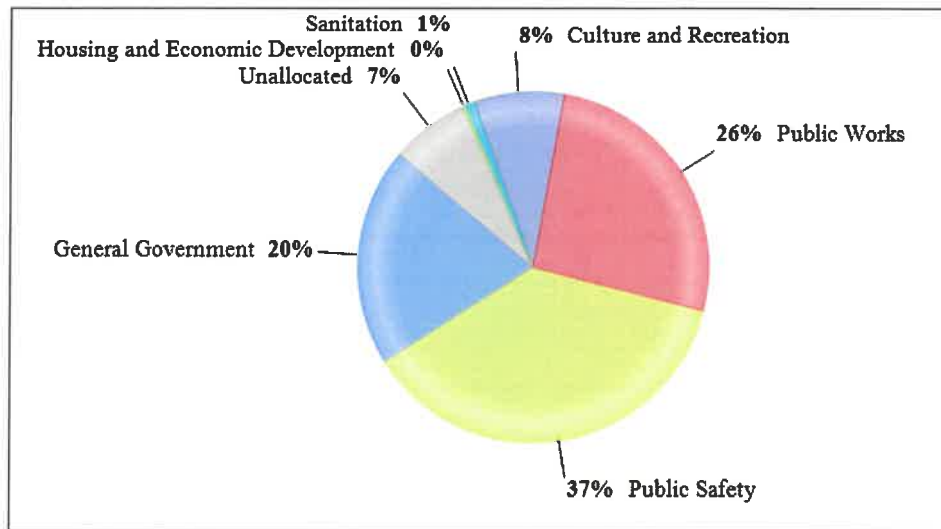
**City of Mountain Lake
Mountain Lake, Minnesota**

**Financial Analysis
December 31, 2020**

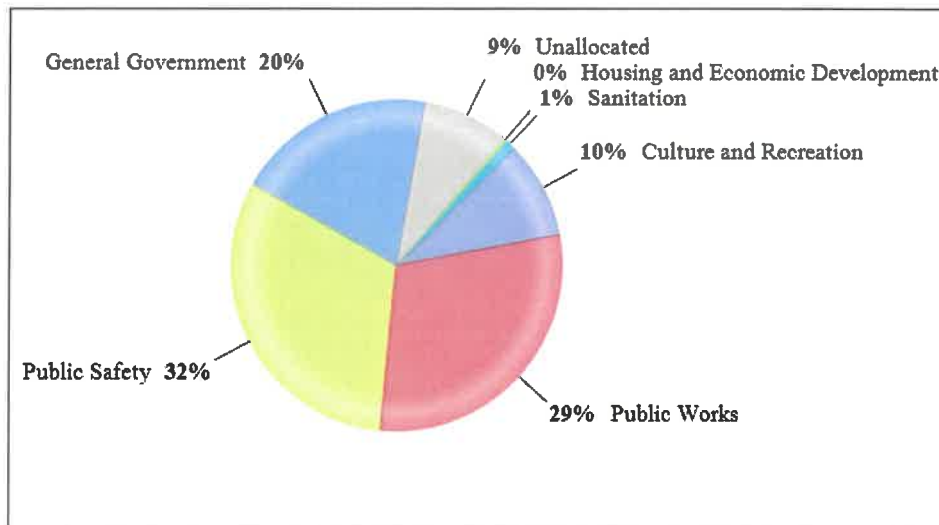
GENERAL FUND (Cont.)

The next graphs illustrate the General Fund expenditures by function for fiscal years 2020 and 2019. Public Safety accounted for the largest portion of expenditures at 37 percent. Public safety expenditures consist of expenditures for police and fire protection. Public works accounted for the second largest portion of General Fund Expenditures at 26 percent. Public works expenditures consist of streets and alleys, street lighting and storm sewer. General government accounted for the third largest portion of General Fund expenditures at 20 percent. General government expenditures consist of expenditures for Mayor and City Council, Clerk/Treasurer, elections, legal, general operating, and other general government expenditures.

**General Fund
2020 Expenditures**



**General Fund
2019 Expenditures**



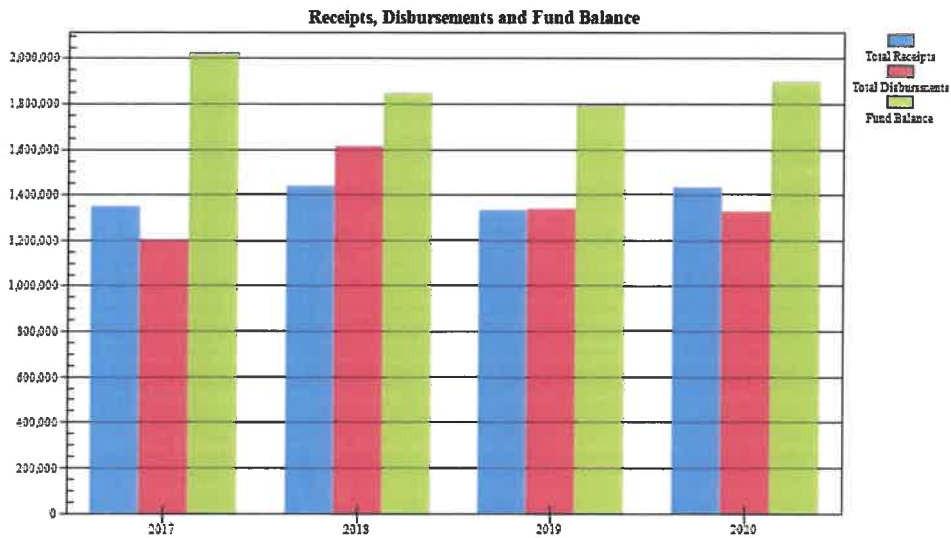
**City of Mountain Lake
Mountain Lake, Minnesota**

**Financial Analysis
December 31, 2020**

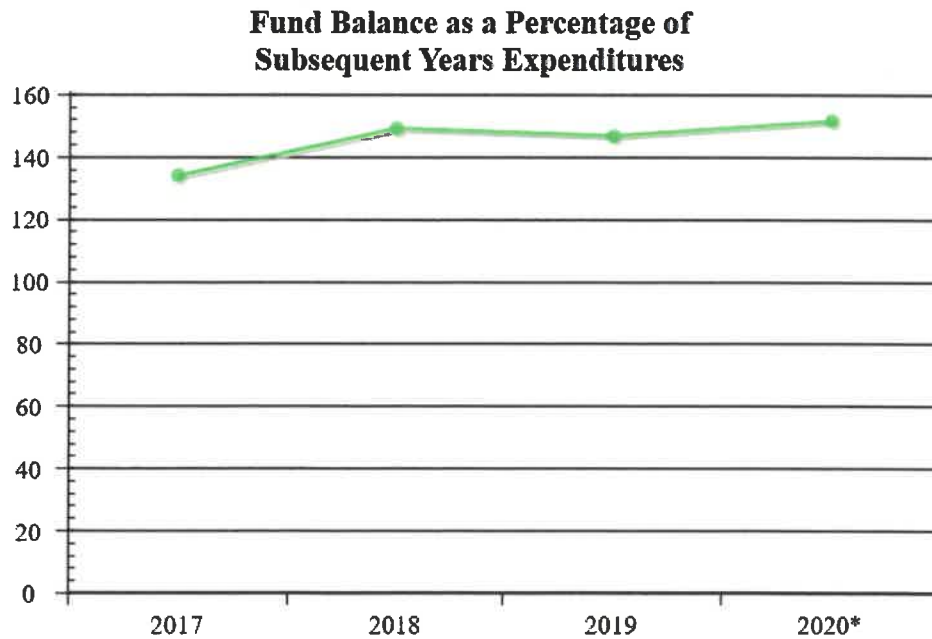
GENERAL FUND (Cont.)

The fund balance of the General Fund increased by \$106,847 in 2020 as a result of expenditures and transfers out exceeding revenues transfers in. The State Auditor recommends cities to attempt to maintain a fund balance of 35% to 50% of fund operating revenues or no less than 5 months of operating expenditures. The current unassigned fund balance of \$935,180 represents 65.3 percent of 2020 revenues. Maintaining a fund balance as described above will ensure adequate working capital and cash flow for the City.

The following graph compares the revenues, expenditures and fund balance for the past four years.



The following graph shows General Fund total fund balance as a percentage of the following years expenditures.



* Using 2021 budgeted expenditures

**City of Mountain Lake
Mountain Lake, Minnesota**

**Financial Analysis
December 31, 2020**

GENERAL FUND (Cont.)

The purposes and benefits of a fund balance are as follows:

- Expenditures are incurred somewhat evenly throughout the year. However, property tax and state aid revenues are not received until the second half of the year. An adequate fund balance will provide the cash flow required to finance the governmental fund expenditures.
- The City is vulnerable to legislative actions at the State and Federal level. The State continually adjusts the local government aid and property tax credit formulas.
- Expenditures not anticipated at the time the annual budget was adopted may need immediate Council action. These would include capital outlay, replacement, lawsuits and other items. An adequate fund balance will provide the financing needed for such expenditures.
- A strong fund balance will assist the City in maintaining, improving or obtaining its bond rating. The result will be better interest rates in future bond sales.

SPECIAL REVENUE FUNDS

Special revenue funds have revenues from specific sources to be expended for specific purposes. Listed below are the special revenue funds of the City along with their respective fund balance (deficit).

<u>Fund</u>	Fund Balance (Deficit)			
	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Nonmajor:				
205 - Economic Development Authority	120,116	131,429	143,014	116,053
211 - Library	174,672	133,443	159,239	185,647
221 - Fire Department	392,247	302,900	380,082	368,142
231 - Ambulance Fund	197,565	272,400	323,106	374,979
230 - Revolving Loan Fund	668,844	665,644	599,843	593,878
235 - SW Housing Grant	(7,958)	9,134	13,558	26,500
240 - Protient - DTED Loan	175,768	182,083	188,861	175,735
280 - MSC - DEED Loan	222,161	223,257	226,670	227,597
360 - TIF #1-3 Pinebrook	7,537	6,967	6,934	6,911
470 - TIF #1 Hospital Project	18,246	18,076	18,398	18,724
507 - Lake Commission Fund	38,933	77,246	113,020	113,222
202 - 2014 Small Cities Development	<u>(1,537)</u>	<u>(1,537)</u>	<u>(1,537)</u>	<u>(1,537)</u>
Total	<u>\$ 2,006,594</u>	<u>\$ 2,021,042</u>	<u>\$ 2,171,188</u>	<u>\$ 2,205,851</u>

**City of Mountain Lake
Mountain Lake, Minnesota**

**Financial Analysis
December 31, 2020**

DEBT SERVICE FUNDS

Debt Service funds are governmental funds used to account for the accumulation of resources for the payment of interest and principal on general government debt issues.

Primary revenue sources in debt service funds are property taxes, tax increments, special assessments and capitalized interest from bond proceeds.

Listed below are the debt service funds of the City along with their respective fund balance (deficit).

<u>Fund</u>	Fund Balance (Deficit)			
	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Major:				
303 - G.O. Tax Increment Bonds of 2013B	\$ (22,133)	\$ (34,411)	\$ (43,437)	\$ -
341 - TIF #1-6 Mt Power	231,059	213,135	207,068	-
342 - TIF #1-4 Good Samaritan	33,501	31,272	29,453	13,065
Nonmajor:				
320 - 2020A GO Taxable Refunding Bonds	-	-	-	76,680
307 - G.O. Improvement Bonds of 2007C	66,220	37,499	26,133	13,399
308 - G.O. Crossover Refunding Bonds of 2011A	98,983	98,367	98,816	65,093
312 - G.O. Improvement Bonds of 2013A	507,300	513,031	519,595	529,437
332 - G.O. Improvement Bonds of 2009A	50,090	51,001	54,178	52,400
361 - Pankratz Land Debt Service	-	47,793	27,484	-
385 - ML Comm Park Debt Service	-	6,448	113,437	582,342
Total	<u>\$ 965,020</u>	<u>\$ 964,135</u>	<u>\$ 1,032,727</u>	<u>\$ 1,332,416</u>

CAPITAL PROJECT FUNDS

Capital project funds account for the acquisition and construction of major capital assets and facilities other than those financed by proprietary funds.

The following table compares the fund balances (deficits) of capital project funds for the last four years.

<u>Fund</u>	Fund Balance (Deficit)			
	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Nonmajor:				
501 - Capital Outlay Revolving Fund	\$ 109,438	\$ 109,877	\$ 110,533	\$ 110,883
415 - MSG Construction	27,534	56,191	83,415	116,742
485 - ML Comm Park Infrastructure	1,247,518	733,436	529,372	-
450 - Downtown Ross Project	(307,961)	(320,714)	(321,991)	(323,220)
Total	<u>\$ 1,076,529</u>	<u>\$ 578,790</u>	<u>\$ 401,329</u>	<u>\$ (95,595)</u>

**City of Mountain Lake
Mountain Lake, Minnesota**

**Financial Analysis
December 31, 2020**

ENTERPRISE FUNDS

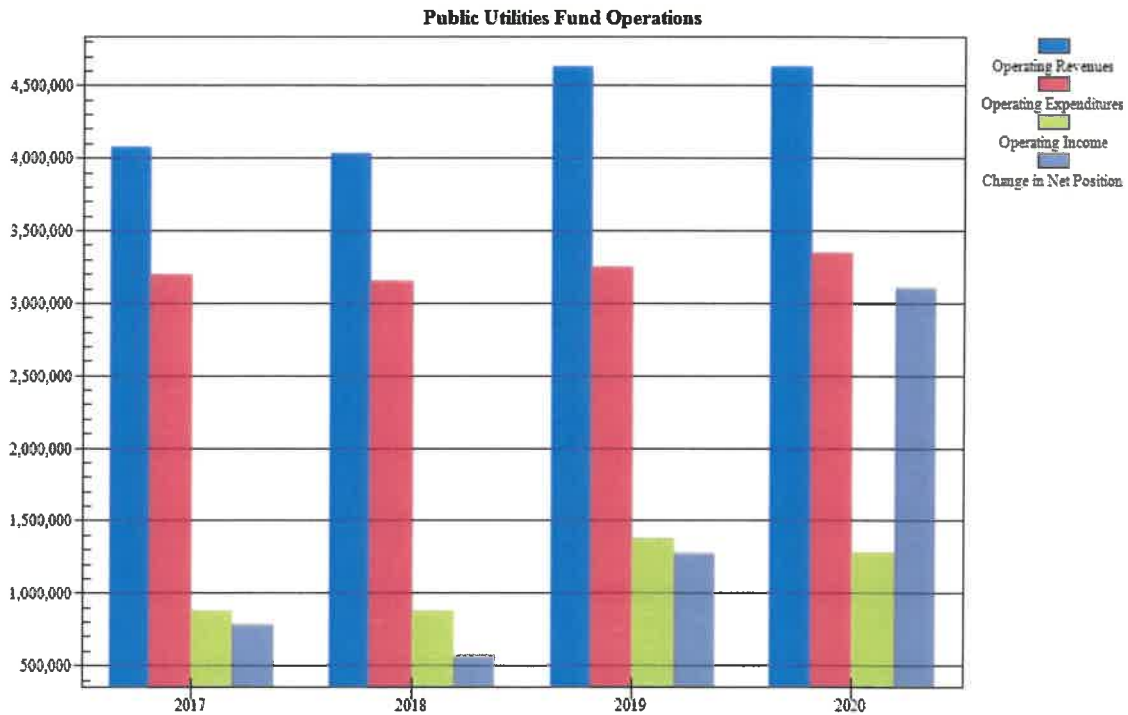
The City uses Enterprise Funds to account for operations that are financed and operated in a manner similar to private business enterprises. Enterprise funds are used where the intent is that the cost of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges.

The following analysis is of the City's enterprise funds which were in operation during 2020.

Public Utilities Fund

A comparison of the Public Utilities Fund operations for the past four years is as follows:

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Operating Revenues	\$ 4,083,795	\$ 4,037,790	\$ 4,636,403	\$ 4,637,286
Operating Expenses	<u>3,201,708</u>	<u>3,157,154</u>	<u>3,256,951</u>	<u>3,354,721</u>
Operating Income	882,087	880,636	1,379,452	1,282,565
Net nonoperating revenue (expense)	(121,127)	(33,259)	(62,094)	1,941,780
Transfers In (Out)	<u>(136,360)</u>	<u>(111,762)</u>	<u>(120,000)</u>	<u>(120,000)</u>
Change in Net Position	<u>\$ 782,522</u>	<u>\$ 560,263</u>	<u>\$ 1,271,652</u>	<u>\$ 3,104,345</u>
Cash and Investments	<u>\$ 3,967,926</u>	<u>\$ 2,900,607</u>	<u>\$ 3,761,355</u>	<u>\$ 5,245,625</u>
Bonds Payable	<u>\$ 13,471,315</u>	<u>\$ 12,534,150</u>	<u>\$ 11,577,685</u>	<u>\$ 16,447,730</u>



**City of Mountain Lake
Mountain Lake, Minnesota**

**Financial Analysis
December 31, 2020**

ENTERPRISE FUNDS (Cont.)

EDA Housing Funds

A comparison of the EDA Housing Funds operations for the past four years is as follows:

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Operating Revenues	\$ 121,045	\$ 119,480	\$ 124,315	\$ 128,862
Operating Expenses	<u>117,284</u>	<u>112,327</u>	<u>137,045</u>	<u>129,841</u>
Operating Income (Loss)	3,761	7,153	(12,730)	(979)
Net nonoperating revenue (expense)	(62,288)	(23,758)	(24,121)	(20,317)
Transfers In (Out)	<u>(2,160)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in Net Position	<u>\$ (17,609)</u>	<u>\$ (12,886)</u>	<u>\$ (32,917)</u>	<u>\$ (21,296)</u>
Cash and Investments	<u>\$ 128,177</u>	<u>\$ 116,979</u>	<u>\$ 88,665</u>	<u>\$ 88,605</u>
Bonds Payable	<u>\$ 680,737</u>	<u>\$ 640,068</u>	<u>\$ 599,138</u>	<u>\$ 2,157,936</u>

