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April 5, 2021

Coordinating Committee
South Lake Minnetonka Police Department
Shorewood, Minnesota

This communication has been prepared in conjunction with the audit of the financial statements and accounting records of the South Lake Minnetonka Police Department (the Department) as of and for the year ended December 31, 2020. My report, dated April 5, 2021, expresses an unmodified report on the basic financial statements of the Department prepared in accordance with accounting principles generally accepted as applied to governmental units by the Governmental Accounting Standards Board (GASB).

Financial Summary

The Statement of Net Position (a government-wide financial statement) of the Department includes all assets and liabilities of the Department and reflects a net position of \$934,269 at December 31, 2020 compared to a net position of \$838,155 the previous year; an increase of \$96,114 or 11.5%.

In determining net position, capital assets (land, building and equipment) of the Department are reported as assets. Capital assets (net of accumulated depreciation) totaled \$3,262,775 at December 31, 2020 and is the largest component of assets. In converting to the government-wide financial statement presentation, expenditures related to capital acquisitions are eliminated from expenditures reported in individual governmental funds and are replaced by depreciation charges in the government-wide financial statements. Similarly, long-term debt of the Department is included as a liability for purposes of the government-wide financial statements. Long-term debt consisting of bonds payable and related accrued interest of the Department totaled \$1,154,542 at year-end. However, principal debt payments reported in governmental funds are eliminated since the liability for bonds payable has been previously reported as a liability in the government-wide financial statements. Also, included among liabilities in the Statement of Net Position is the Department's proportionate share of the net pension liability related to retirement plans the Department participates in; this liability was \$1,755,001 at year-end.

Net position at December 31, 2020 and 2019 is characterized into the following components:

	2020	2019
Investment in Capital Assets (Net of Debt)	\$ 2,117,775	\$ 1,971,225
Restricted for Debt Service	454,209	449,879
Restricted for Law Enforcement Projects	25,638	27,460
Unrestricted - Designated		
Special Revenue	8,324	8,324
Capital Projects	180,674	197,026
Unrestricted - Undesignated	(1,852,351)	(1,815,759)
	<u>\$ 934,269</u>	<u>\$ 838,155</u>

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The investment in capital assets category is presented net of depreciation and debt associated with the acquisition of capital assets. Restricted amounts are assets (net of liabilities) restricted for specific purposes, such as debt service, and generally are unavailable for current operating expenses.

The unrestricted – designated net position balances represent amounts in the Special Revenue and Capital Project funds designated for various purposes. Activities in the Special Revenue Fund typically account for current operating expenditures such as insurance and other programs. The Capital Project Fund generally accounts for capital related expenditures, including technology, equipment and building capital and/or maintenance. Individual account balances are maintained within these funds based on the purpose and activities of the individual programs.

These unrestricted – designated accounts are an integral part of the operations of the Department; their primary purpose is to level out certain types of expenditures, such as capital acquisitions, over a period of years to avoid significant variations in expenditure levels during the budgeting process related to these expenditures. Monitoring the activities of these accounts is critical to the continued successful operations of the Department. However, if necessary, funds of these accounts may be utilized or recharacterized at the Coordinating Committee's discretion.

The unrestricted deficit balance presented is attributed to reporting the Department's proportionate share of the net pension liability and deferred outflows and deferred inflows of resources related to retirement plans the Department participates in through the Public Employees Retirement Association of Minnesota. At December 31, 2020, the combined amount of these reported pension related items totaled approximately \$2,072,000. This amount, if not required to be reported, would eliminate the unrestricted deficit balance being presented in the Statement of Net Position.

As presented in the Statement of Activities, the net position of the Department increased \$96,114 for the year compared to an increase of \$331,635 in the previous year. Primarily, two factors contributed to this increase: 1) retirement of debt funded from member assessments; and 2) the reduction of the Department's proportionate share of the net pension liabilities (less related assets) of retirement plans the Department participates in.

Revenues totaled \$3,263,738 for the year, a decrease of \$55,091 or 1.7% compared to 2019. Although total revenues decreased, member city assessments required to fund the basic operations and debt service requirements of the Department increased by 1.7%. For the year, member assessments accounted for 92.7% of total revenues compared to 90.0% in the previous year.

For the year expenses totaled \$3,167,624, an increase of \$180,430 or 6.0% from the previous year. Increases in payroll and benefits and continued increases in insurance and enhancements/improvements to technology systems contributed to this increase.

The largest component of expenses for the Department is related to personnel costs consisting of payroll and related benefit costs. These costs totaled approximately \$2,293,000 or 72.4% of total expenses in 2020 (excluding adjustment for the change in pension liability) compared to 71.6% in 2019. The budget in the General Fund for payroll and related benefit costs was \$2,384,600; when compared to actual expenditures resulted in a favorable variance of approximately \$91,600 or 3.8%.

Another major component of expenses is depreciation on capital assets. This accounted for 8.7% of total expenses for the year. Depreciation charges increased this year due to the acquisition of vehicles and other equipment with a useful (depreciation) life of more than one year.

Financial Summary - Individual Funds

General Fund

The General Fund is the primary operating fund of the Department. Operations of the General Fund reported a deficit of \$145,129 for the year, after the effect of two non-operating items totaling \$90,000. The Department's budget for 2020 anticipated a \$92,000 deficit, utilizing a portion of the existing fund balance to finance current year operations. Excluding these non-operating items, operations of the Department reflected a favorable variance of \$36,871 for the year. The fund balance of the General Fund at December 31, 2020 was \$244,183, of which \$189,650 (6.2% of budgeted expenditures for 2021) has been designated as a working capital reserve. The remaining or undesignated fund balance represents 1.8% of budgeted expenditures for 2021.

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Following is a condensed comparison of actual results (before non-operating items) with the budget of the General Fund.

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>	<u>Percent of Budget</u>
Revenues and Support				
Member Assessments	\$ 2,610,276	\$ 2,610,276	\$ -	100.00%
Member Reimbursements	29,500	16,514	(12,986)	55.98%
Grants and Other Aids	153,500	155,437	1,937	101.26%
Charges for Services	28,000	18,511	(9,489)	66.11%
Investment and Other Revenues	12,000	12,034	34	100.28%
	<u>2,833,276</u>	<u>2,812,772</u>	<u>(20,504)</u>	<u>99.28%</u>
Expenditures				
Personnel Services	2,384,596	2,292,942	91,654	96.16%
Leases, Maintenance and Repairs	116,100	134,285	(18,185)	115.66%
Utilities	62,680	66,216	(3,536)	105.64%
Contracted Services	37,000	43,741	(6,741)	118.22%
General Supplies	84,200	100,432	(16,232)	119.28%
Insurance	116,000	116,000	-	100.00%
Capital Outlay	72,000	72,000	-	100.00%
Other	52,700	42,285	10,415	80.24%
	<u>2,925,276</u>	<u>2,867,901</u>	<u>57,375</u>	<u>98.04%</u>
Increase (Decrease) in Fund Balance	<u>\$ (92,000)</u>	<u>\$ (55,129)</u>	<u>\$ 36,871</u>	

As the comparison illustrates, actual revenues of \$2,812,772 were slightly less than budgeted amounts resulting in a negative variance of less than 1%. Decrease in revenues from member reimbursements and special policing and security details were negatively impacted by the effects of COVID-19.

Expenditures of the General Fund were less than budgeted estimates by \$57,375, resulting in a positive variance of 2.0%. As has been the experience in previous years, the major positive variance in expenditures is attributed to personnel costs which accounted for a positive variance of \$91,654. As illustrated in the chart, negative variances occurred in the following categories; contracted services, repairs and maintenance, and supplies (uniforms). Other expenditure categories compared favorably with budget estimates.

In summary, the financial condition of the General Fund remains strong, despite incurring an overall deficit of \$145,129 during the year. The fund balance of the General Fund was \$244,183 at December 31, 2020, which exceeds the minimum fund balance requirement of 6.2% established by past Coordinating Committees. Applying this policy results in a balance of \$189,650 which is designated as a working capital reserve; this balance is presented as assigned under fund balance in the General Fund. Another portion of the fund balance is listed as nonspendable and represents expenditures made in 2020 for 2021 activities (prepaid items). The remaining balance of \$53,624 in the General Fund is characterized as unassigned. The Coordinating Committee has the discretion to designate or assign any portion of the fund balance as it deems appropriate.

This budget reserve provides the Department with working capital for future operations. In addition, this reserve provides a safeguard against potential revenue shortages or unexpected expenses that may occur throughout the year. This amount is used to; 1) meet emergencies and unforeseen situations that may require an increase in the annual budget; 2) offset inconsistencies in cash flows to maintain payment of current operating expenses; and 3) continue or maintain current operations in case of funding cutbacks until alternative funding is developed. It should be noted that the Department's second largest revenue source is state aid which is received in October. This reserve may also be used to fund Department initiatives and special projects.

Special Revenue Fund

The fund balance of the Special Revenue Fund has a deficit balance of \$6,065 at December 31, 2020. Major activities within the Special Revenue Fund are the insurance program and forfeiture activities. Activities of the Special Revenue Fund resulted in a decrease in fund balance of \$31,821 due to insurance costs exceeding the amount appropriated from the General Fund.

One of the principal accounts in this fund is the insurance account; due to significant increases in insurance costs this account had a deficit balance of \$40,027 at December 31, 2020. The balance of \$25,638 from forfeiture activities is restricted for law enforcement expenditures in accordance with state requirements. The Reserve Officers account is the other account in this fund; its balance at December 31, 2020 was \$8,324.

Debt Service Fund

Debt service requirements of \$400,600 for the year were funded entirely from member assessments. The fund balance of the Debt Service Fund at December 31, 2020 was \$463,751; this amount is sufficient to satisfy the debt service payments required in 2021. Realization of savings generated from refinancing of bonded debt is reflected in reduced member assessments for debt service requirements.

Capital Project Fund

Capital project accounts have been established for vehicle, technology, equipment, building maintenance and capital purposes. The combined fund balance of these accounts was \$196,336 at December 31, 2020. The fund balance decreased \$40,690 for the year before accounting for the \$40,000 transfer from the General Fund. The decrease in fund balance was due to capital expenditures for vehicles and continuing technology enhancements, improvements and upgrades. Resources for these capital expenditures are provided primarily from transfers from the General Fund. Operating transfers from the General Fund to these accounts totaled \$128,580 in 2020.

The balance of the accounts comprising this fund at December 31, 2020 were as follows:

	Balance
Vehicle	\$ 22,584
Equipment	8,741
Technology	15,809
Building Maintenance	20,067
Building Capital - Concrete	120,000
Building Capital - Other	9,135
	<u>\$ 196,336</u>

Again, the Coordinating Committee has the option to re-designate any of the balances of the individual accounts at their discretion. In addition, a portion of the General Fund's unassigned fund balance at December 31, 2020 is available to finance future acquisitions from these accounts.

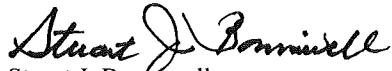
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The purpose of this letter has been to communicate certain comments and observations noted during the audit of the financial statements of the Department. These comments are presented for your information and consideration. Comments and recommendations in this letter are informational and constructive in nature and should be read in this context.

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This report is intended solely for the use of the members of the Coordinating Committee and management of the South Lake Minnetonka Police Department and is not intended to be, and should not be, used by anyone other than these specified parties. If the Committee wishes, I would be pleased to meet and discuss any of the observations or other matters pertaining to the audit with the Committee and management at your convenience.

I wish to express my appreciation for the courtesies and cooperation extended by Department personnel during the audit and the opportunity to be of service to the South Lake Minnetonka Police Department. I look forward to continuing working with you in the future.

A handwritten signature in black ink, reading "Stuart J. Bonniwell". The signature is written in a cursive style with a large, stylized "S" and "B".

Stuart J. Bonniwell
Certified Public Accountant