

**CITY OF FAIRMONT
PUBLIC UTILITIES COMMISSION
WORK SESSION AGENDA**

Tuesday, July 2, 2024

1. Call to Order
- 7:30 AM City Hall Conference Room (Second Floor)

2. Roll Call
Chair Werre _____
Commissioner Struss _____
Commissioner Christ _____
Commissioner Sharp _____
Commissioner Zoch _____

3 2023 Audit Overview (2 - 38)

5 Date and Time of Next Meetings:
- Regular Meeting - Tuesday, July 16, 2024
- Work Session - Tuesday, August 6, 2024

5 Adjournment



Fairmont Public Utilities Commission
July 2, 2024

Agenda Item: 3

From: Paul Hoye, Finance Director
To: Public Utilities Commission

Subject: 2023 Audit Overview

Policy/Action Requested:

Vote Required: ___ Simple Majority ___ Roll Call

Recommendation: Informational

Overview:

Paul Hoye, Finance Director, along with the auditors from Bergan KDV, will be giving a brief overview of the 2023 Annual Audit.

Budget Impact: N/A

Attachments: Audit Communications Letter and Schedule of Expenditures of Federal Awards

PUC Action: _____ Date: _____



**City of Fairmont
Martin County, Minnesota**

Communications Letter

December 31, 2023

**City of Fairmont
Table of Contents**

Report on Matters Identified as a Result of the Audit of the Basic Financial Statements	1
Required Communication	3
Financial Analysis	8
Emerging Issues	20



Report on Matters Identified as a Result of the Audit of the Basic Financial Statements

Honorable Mayor, Members
of the City Council and Management
City of Fairmont
Fairmont, Minnesota

In planning and performing our audit of the financial statements of the governmental activities, business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Fairmont, as of and for the year ended December 31, 2023, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, we considered the City's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error, or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the City's basic financial statements will not be prevented, or detected and corrected, on a timely basis. A reasonable possibility exists when the likelihood of an event occurring is either reasonably possible or probable as defined as follows:

- ◆ *Reasonably possible*. The chance of the future event or events occurring is more than remote but less than likely.
- ◆ *Probable*. The future event or events are likely to occur.

We did not identify any deficiencies in internal control that we consider to be material weaknesses.

The accompanying memorandum also includes financial analysis provided as a basis for discussion. The matters discussed herein were considered by us during our audit and they do not modify the opinion expressed in our Independent Auditor's Report June 4, 2024, on such statements.

The purpose of this communication, which is an integral part of our audit, is to describe for the Members of the City Council and management and others within the City and state oversight agencies the scope of our testing of internal control and the results of that testing. Accordingly, this communication is not intended to be and should not be used for any other purpose.

Burgess KDV, Ltd.

St. Cloud, Minnesota
June 4, 2024

City of Fairmont Required Communication

We have audited the basic financial statements of the governmental activities, business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City as of and for the year ended December 31, 2023. Professional standards require that we advise you of the following matters related to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter, our responsibility, as described by professional standards, is to form and express opinions about whether the basic financial statements prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the basic financial statements does not relieve you or management of its respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the basic financial statements are free of material misstatement. An audit of the basic financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of the City solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgement, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

Generally accepted accounting principles provide for certain Required Supplementary Information (RSI) to supplement the basic financial statements. Our responsibility with respect to the RSI, which supplements the basic financial statements, is to apply certain limited procedures in accordance with generally accepted auditing standards. However, the RSI was not audited and, because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance, we do not express an opinion or provide any assurance on the RSI.

Our responsibility for the supplementary information accompanying the basic financial statements, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the basic financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Our responsibility with respect to the other information in documents containing the audited basic financial statements and auditor's report does not extend beyond the basic financial information identified in the report. We have no responsibility for determining whether this other information is properly stated. This other information was not audited, and we do not express an opinion or provide any assurance on it.

City of Fairmont Required Communication

Our Responsibility in Relation to *Government Auditing Standards*

As communicated in our engagement letter, part of obtaining reasonable assurance about whether the basic financial statements are free of material misstatement, we performed tests of the City's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of basic financial statement amounts. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Our Responsibility in Relation to Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*

As communicated in our engagement letter, in accordance with the Uniform Guidance, we examined on a test basis, evidence about the City's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on the City's compliance with those requirements. While our audit provided a reasonable basis for our opinion, it did not provide a legal determination on the City's compliance with those requirements.

In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, our firm, and our network firms have complied with all relevant ethical requirements regarding independence.

Significant Risks Identified

We have identified the following significant risks of material misstatement:

- ◆ Risk of Improper Revenue Recognition - Revenue recognition is considered a fraud risk on substantially all engagements as it is generally the largest line item impacting a City's change in fund balance or net position.
- ◆ Risk of Misappropriation of Assets - Misappropriation of assets is considered a risk in substantially all engagements as assets may be misappropriated due to fraud or error.
- ◆ Risk of Management Override of Controls - Management override of internal control is considered a risk in substantially all engagements as management may be incentivized to produce better results.
- ◆ Pension Valuation - Net Pension Liability, Deferred Outflows of Resources Related to Pensions, and Deferred Inflows of Resources Related to Pensions - These are generally material to the financial statements and involve significant estimates.

**City of Fairmont
Required Communication**

Significant Risks Identified (Continued)

- ◆ Other Post-Employment Benefits Valuation - Total OPEB Liability, Deferred Outflows of Resources Related to OPEB, and Deferred Inflows of Resources Related to OPEB - These are generally material to the financial statements and involve significant estimates.

Qualitative Aspects of the City's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the City is included in the notes to the basic financial statements. There have been no initial selection of accounting policies and no changes to significant accounting policies or their application during 2023. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the basic financial statements prepared by management and are based on management's current judgements. Those judgements are normally based on 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 basic financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgements. The most sensitive estimates affecting the basic financial statements relate to:

Total Other Post Employment Benefits (OPEB) Liability, Deferred Outflows of Resources Related to OPEB and Deferred Inflows of Resources Related to OPEB - These balances are based on an actuarial study using the estimates of future obligations of the City for post employment benefits.

Net Pension Liability, Deferred Outflows of Resources Relating to Pensions and Deferred Inflows of Resources Relating to Pensions - These balances are based on an allocation by the pension plans using estimates based on contributions.

We evaluated the key factors and assumptions used to develop the accounting estimates and determined that they are reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units.

Financial Statement Disclosures

Certain basic financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The basic financial statement disclosures are neutral, consistent, and clear.

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

City of Fairmont Required Communication

Uncorrected and Corrected Misstatements

For the purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effects of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the basic financial statements taken as a whole and each applicable opinion unit. Management did not identify, and we did not notify them of any uncorrected financial statement misstatements.

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. None of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the basic financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the City's basic financial statements or the auditor's report. No such disagreements arose during the course of our audit.

Representations Requested from Management

We have requested certain written representations from management, which are included in the management representation letter.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management has informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with the City, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, significant events or transactions that occurred during the year, operating and regulatory conditions affecting the City, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the City's auditor.

Other Information Included in Annual Reports

Pursuant to professional standards, our responsibility as auditors for other information, whether financial or nonfinancial, included in the City's annual reports, does not extend beyond the information identified in the audit report, and we are not required to perform any procedures to corroborate such other information.

We applied certain limited procedures to the 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.

**City of Fairmont
Required Communication**

Other Information Included in Annual Reports (Continued)

With respect to the supplementary information accompanying the financial statements, 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 basic financial statements or to the basic financial statements themselves.

We were not engaged to report on the other information accompanying the basic financial statements but are 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.

Our responsibility also includes communicating to you any information which we believe is a material misstatement of fact. Nothing came to our attention that caused us to believe that such information, or its manner of presentation, is materially inconsistent with the information, or manner of its presentation, appearing in the basic financial statements.

City of Fairmont Financial Analysis

The following pages provide graphic representation of select data pertaining to the financial position and operations of the City for the past five years. Our analysis of each graph is presented to provide a basis for discussion of past performance and how implementing certain changes may enhance future performance. A subsequent discussion of this information should be useful for planning purposes.

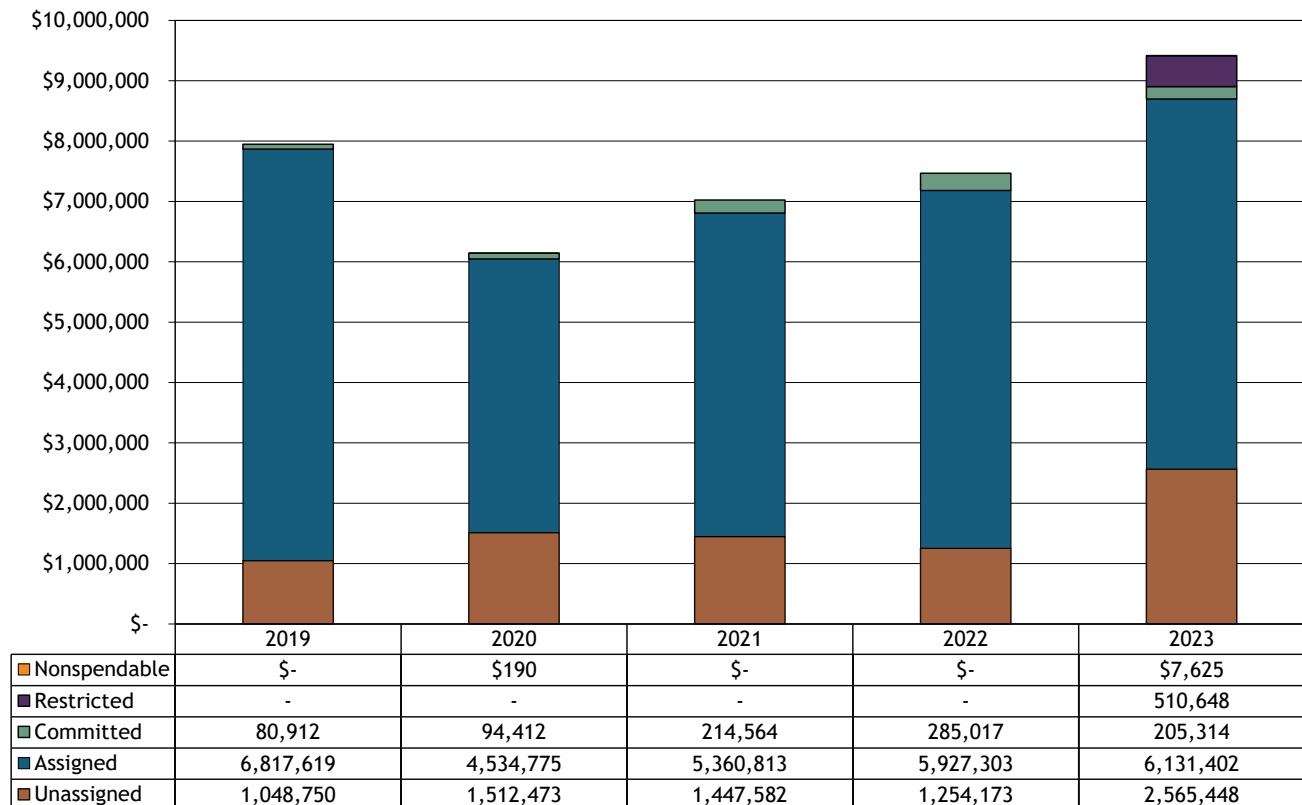
General Fund

Total fund balance in the General Fund increased 26.2% in 2023 to \$9,420,437. General Fund revenues and other financing sources exceeded by expenditures and other financing uses by \$1,953,944 during 2023. A more detailed analysis of the General Fund revenue and expenditure components are presented on the following pages.

The City's fund balance policy establishes an unrestricted fund balance range of 55%-65% of the subsequent year's budgeted expenditures. The current General Fund unrestricted fund balance represents 90.9% of 2023 General Fund budgeted expenditures, or eleven months of those budgeted expenditures. These percentages are consistent with a Statement of Position issued by the Office of the State Auditor which recommended an unrestricted General Fund balance of between 35% to 50% of budgeted revenues and no less than five months of operating expenditures.

A five year history of General Fund balance is shown below.

General Fund Balance

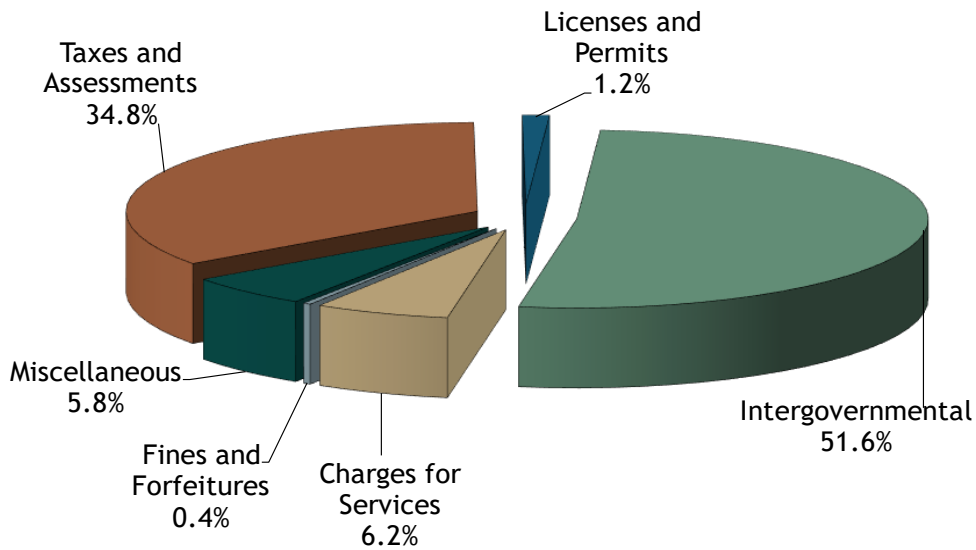


City of Fairmont Financial Analysis

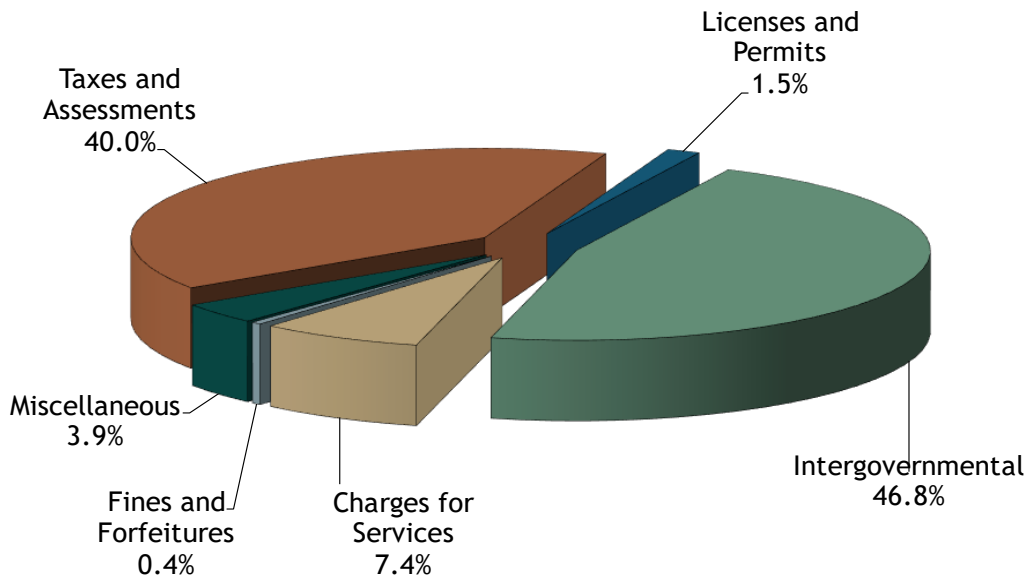
General Fund Revenues

Allocations of the City's revenues by source for the current and preceding year are displayed below. Intergovernmental increased due to recognizing the American Rescue Plan Act revenue in 2023. The rest of the allocation was relatively consistent from 2022 to 2023.

General Fund Revenues 2023



General Fund Revenues 2022

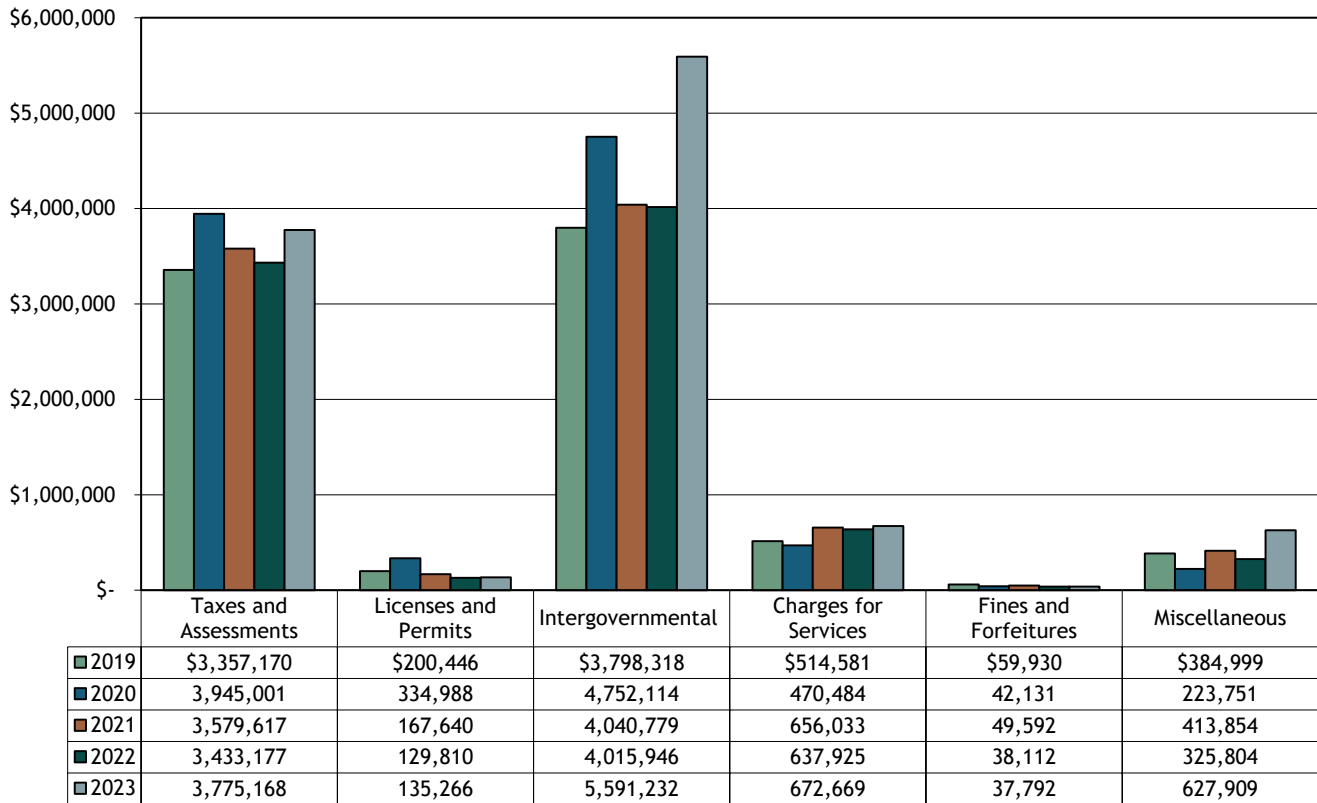


City of Fairmont Financial Analysis

General Fund Revenues (Continued)

The chart below shows the City's revenues by source for the last five years. Intergovernmental revenue increased by \$1,575,286 from 2022 to 2023 due to recognizing the remaining American Rescue Plan Grant revenue in 2023. Property taxes increased \$341,991 due to increase in property tax levy. Miscellaneous revenue increased due to increased investment income related to better market conditions.

General Fund Revenues

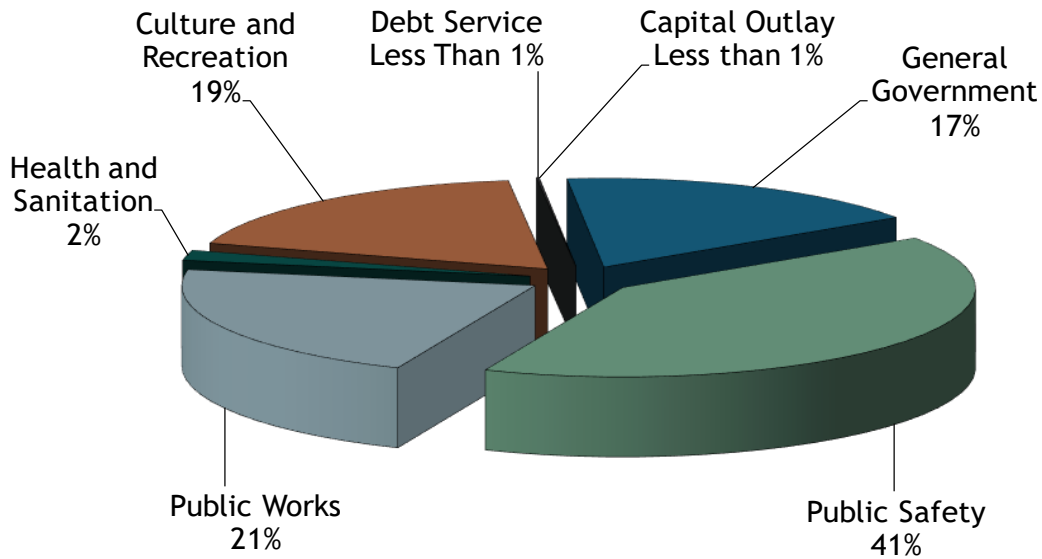


City of Fairmont Financial Analysis

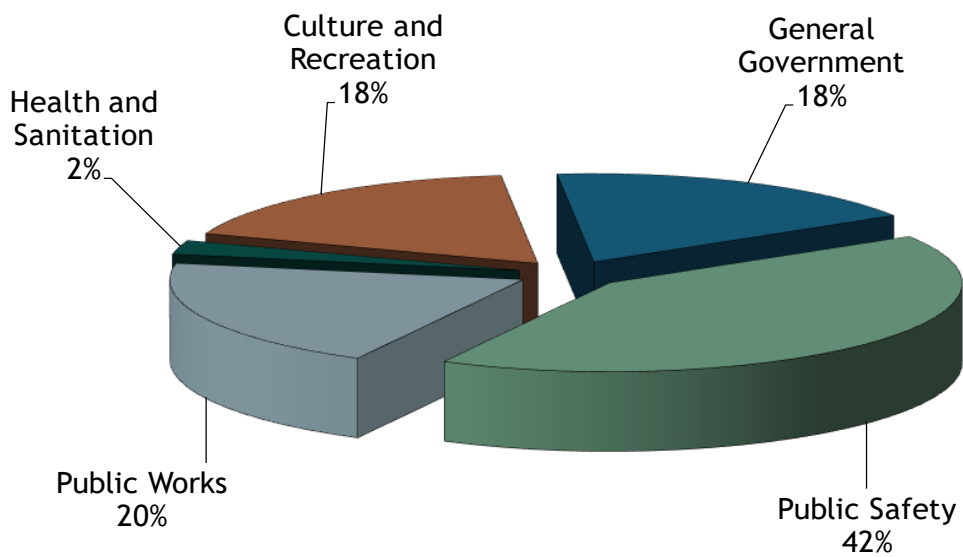
General Fund Expenditures

The pie charts below show the breakdown of expenditures in the General Fund for the last two years. The allocation did not change significantly from 2022 to 2023.

General Fund Expenditures 2023



General Fund Expenditures 2022

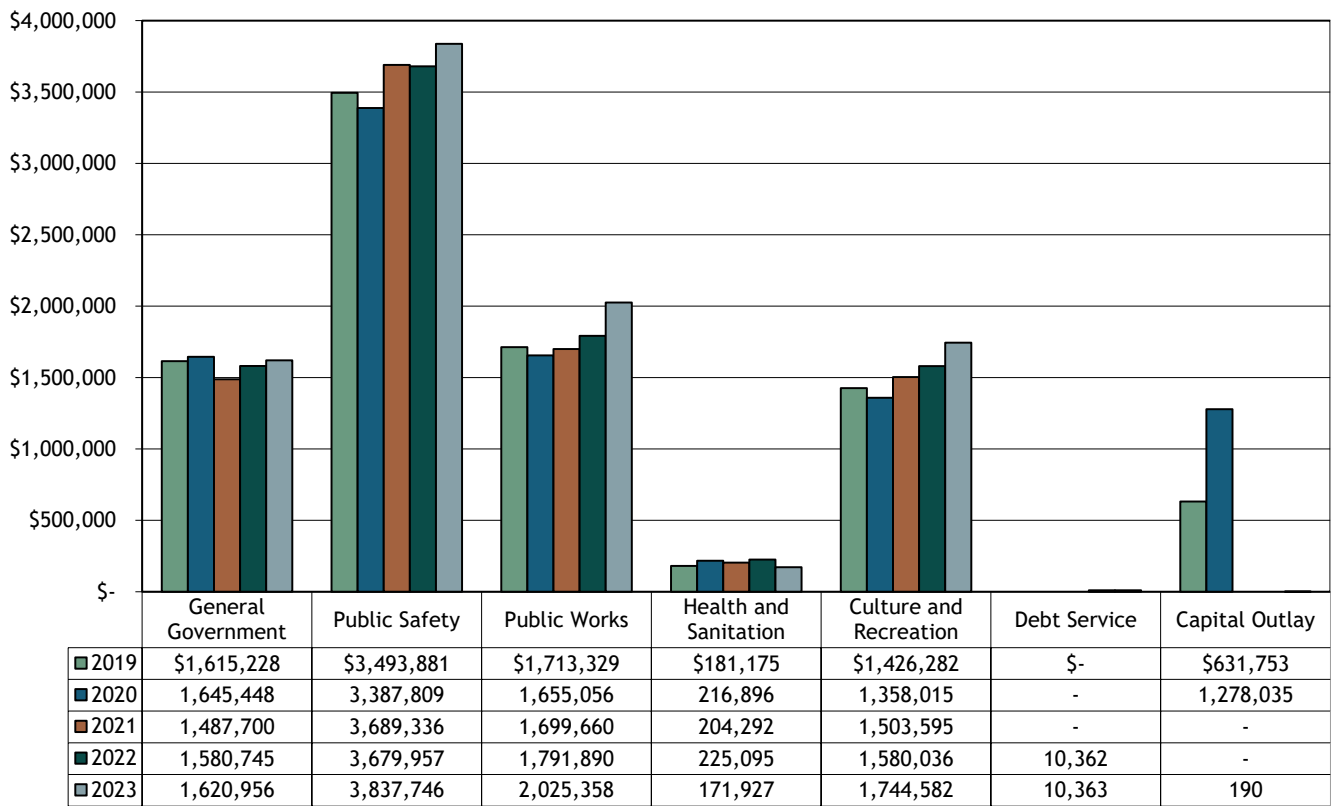


City of Fairmont Financial Analysis

General Fund Expenditures (Continued)

Five year trend information for General Fund expenditures by function is shown below. From 2022 to 2023 expenditures increased \$543,037. Public works increased \$233,468 due to increased purchases of supplies, increased contracted services and increased engineering costs. Public Safety increased by \$157,789 due to implementing a new compensation plan, increasing wages. Culture and recreation increased \$164,546 due to increased wages. Other functions had minor variances from the prior year.

General Fund Expenditures



**City of Fairmont
Financial Analysis**

General Fund Budget and Actual

	Budget	Actual Amounts	Over (Under) Budget
Revenues			
Property taxes	\$ 3,894,798	\$ 3,775,168	\$ (119,630)
Licenses and permits	170,800	135,266	(35,534)
Intergovernmental revenues	4,045,327	5,591,232	1,545,905
Charges for services	658,196	672,669	14,473
Fines and forfeitures	49,500	37,792	(11,708)
Miscellaneous	253,836	627,909	374,073
Total revenues	9,072,457	10,840,036	1,767,579
Expenditures			
General government	1,696,346	1,620,956	(75,390)
Public safety	4,037,540	3,837,936	(199,604)
Public works	1,986,854	2,025,358	38,504
Health and sanitation	249,383	171,927	(77,456)
Culture and recreation	1,818,834	1,744,582	(74,252)
Debt Service	-	10,363	10,363
Total expenditures	9,788,957	9,411,122	(377,835)
Other Financing Sources (Uses)			
Transfers in	825,000	825,000	-
Transfers out	(748,500)	(304,550)	443,950
Total other financing sources (uses)	76,500	525,030	448,530
Net change in fund balances	\$ (640,000)	\$ 1,953,944	\$ 2,593,944

The chart above compares actual revenues and expenditures to amounts budgeted in the General Fund for 2023. Actual General Fund revenues were over budget by \$1,767,579 or 19.5%. Intergovernmental revenues were overbudget \$1,545,905 primarily due to not anticipating recognizing the American Rescue Plan Act revenue and receiving one-time public safety aid from the State of Minnesota in 2023. Miscellaneous revenues were over budget due to conservative budgeting. All sources of revenue were relatively consistent with budgeted amounts.

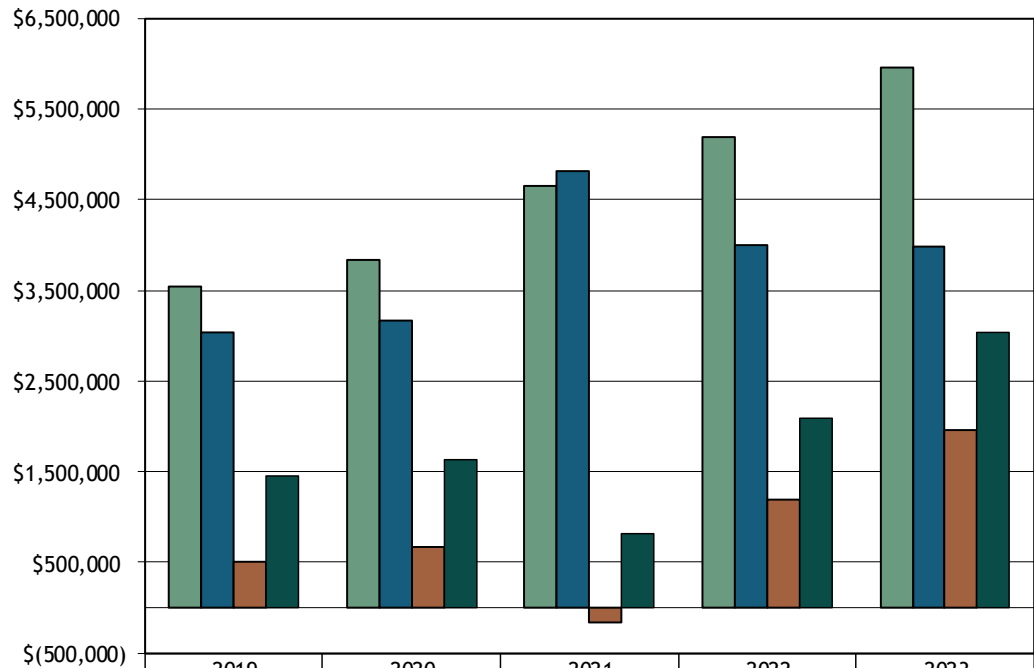
Total actual expenditures were under budgeted expenditures by \$377,835, or 3.9%. Public safety was \$199,604 or 4.9% under budget mostly related to personnel costs due to staff shortages. Remaining expenditure categories showed minor budget variations.

City of Fairmont Financial Analysis

Water Fund

Water Fund operating results over the last five years are presented below. Operating revenues have exceeded operating expenses in four out of the five years presented. Operating revenue in the Water Fund increased 14.7% over the prior year as a result of increased usage and rate adjustments. Expenses for the year decreased \$9,874.

Water Fund



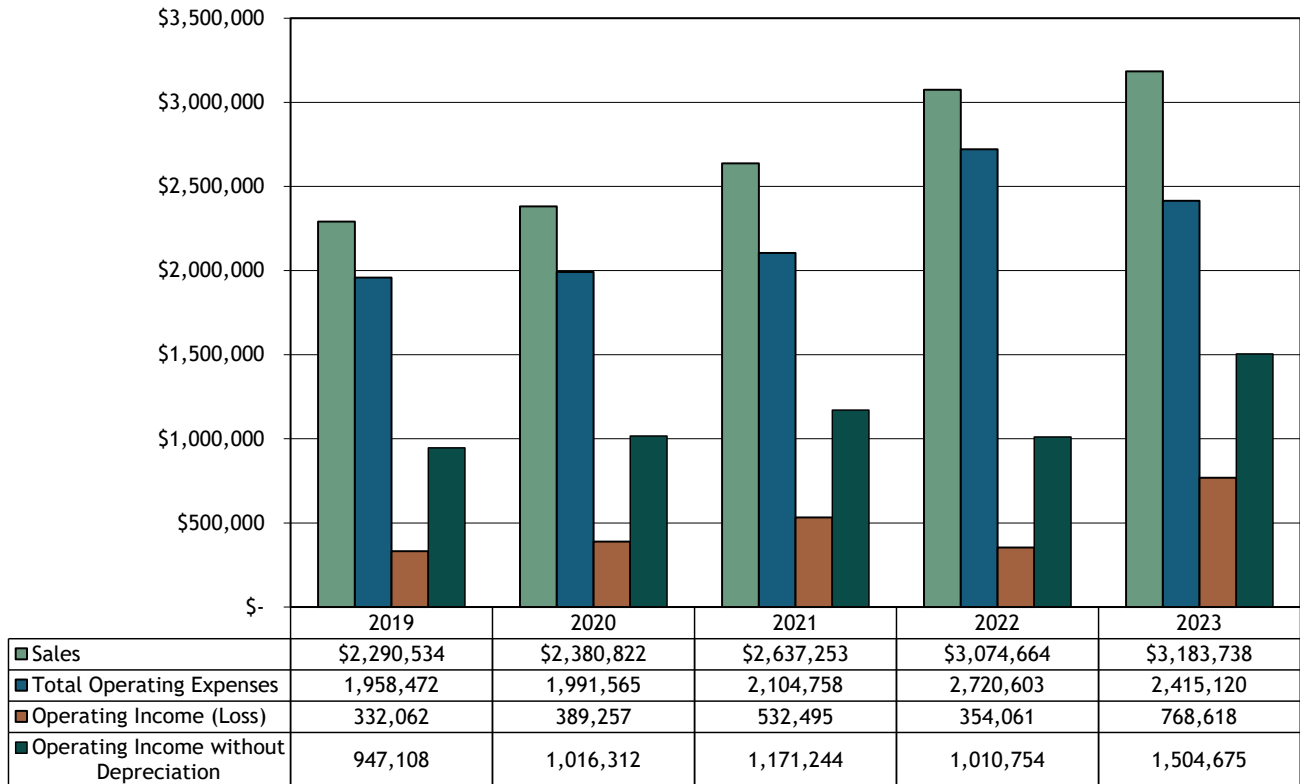
	2019	2020	2021	2022	2023
Total Operating Revenues	\$3,538,073	\$3,828,469	\$4,657,030	\$5,187,509	\$5,951,136
Total Operating Expenses	3,033,190	3,163,819	4,815,058	3,998,503	3,988,629
Operating Income (Loss)	504,883	664,650	(158,028)	1,189,006	1,962,507
Operating Income without Depreciation	1,448,963	1,629,059	813,803	2,087,277	3,033,183

City of Fairmont Financial Analysis

Sewer Fund

Sewer Fund operating results over the last five years are presented below. Operating revenues have exceeded operating expenses in all five years presented. Operating revenues increased \$109,074, or 3.5% due to rate adjustments and usage, and operating expenses decreased \$305,483 or 11.2% due to fewer Sewer Plant repairs, biosolid hauling and digester cleaning.

Sewer Fund

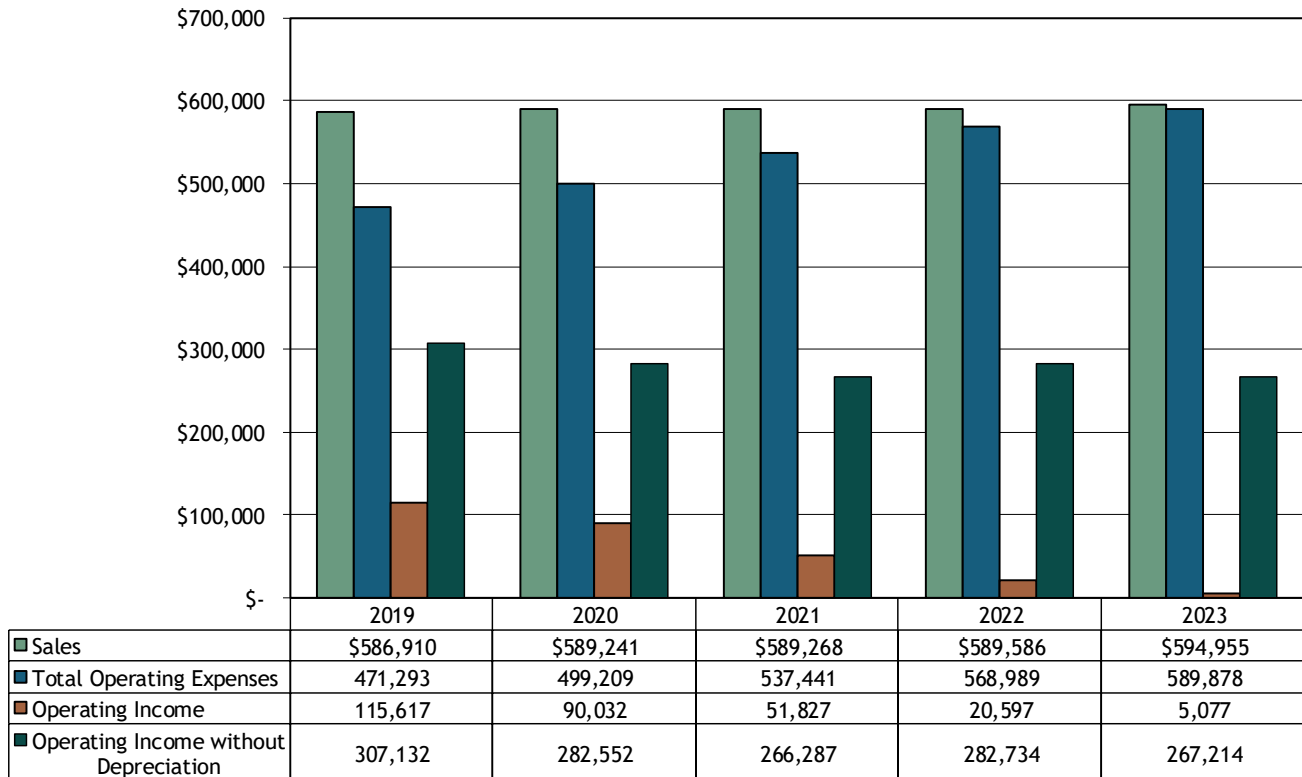


City of Fairmont Financial Analysis

Storm Water Fund

Operating results of the Storm Water Fund are presented below. This Fund has been able to generate operating income with and without depreciation for each of the last five years. From 2022 to 2023, operating revenues of the Fund increased \$5,369. Operating expenses for the Fund increased \$20,889, or 3.7% due to a large culvert repair.

Storm Water Fund

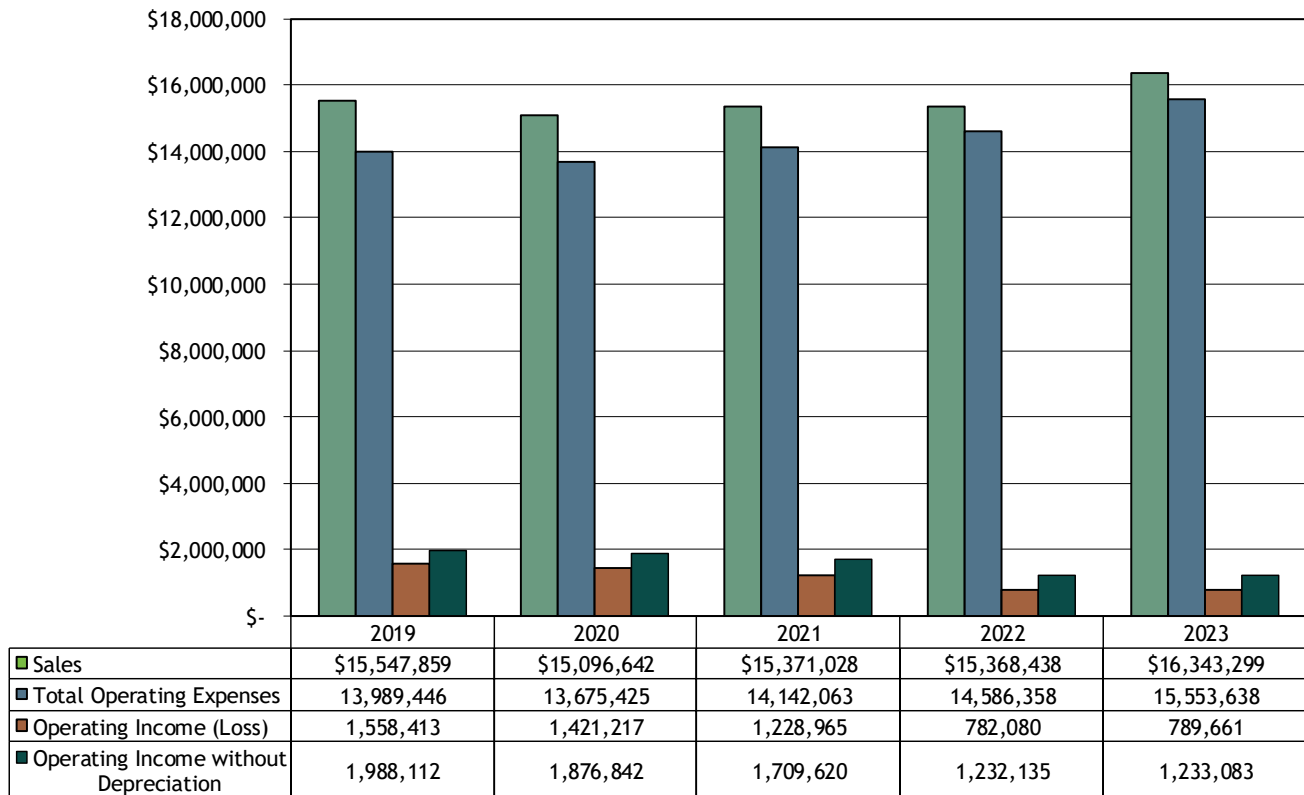


City of Fairmont Financial Analysis

Electric Fund

Operating results of the Electric Fund are presented below. This Fund has been able to generate operating income with and without depreciation for all of the last five years. From 2022 to 2023, operating revenues increased \$974,861, or 6.3% due to an increase in the Energy Cost Adjustment Rate. Operating expenses for the Fund increased \$967,280, or 6.6% due to increased purchased power costs related to increased usage.

Electric Fund

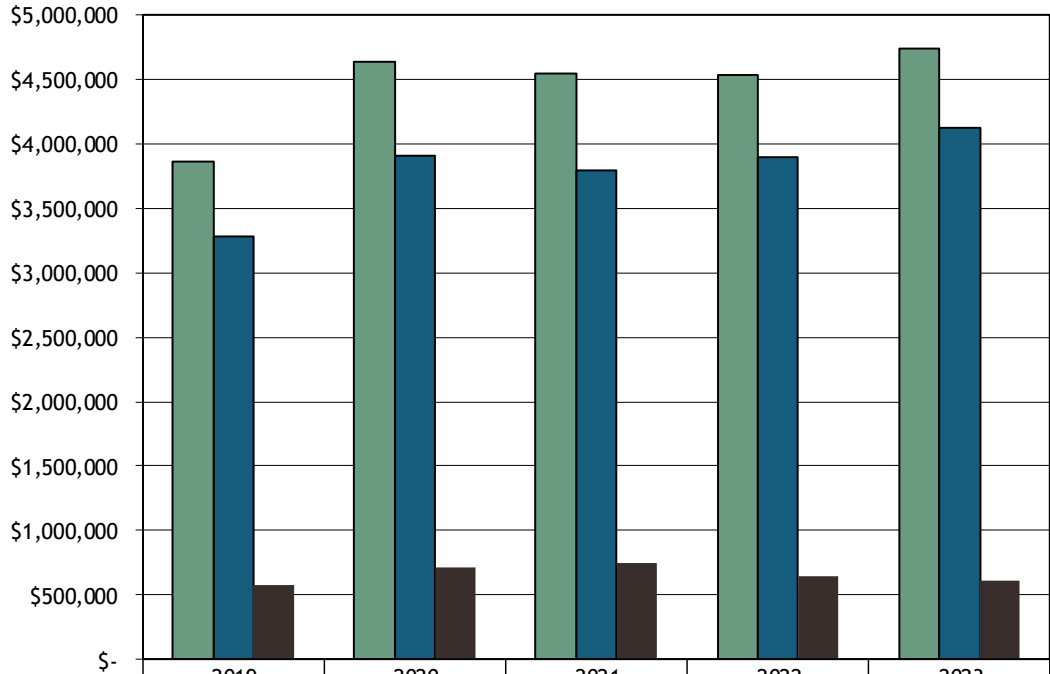


City of Fairmont Financial Analysis

Liquor Fund

Liquor Fund operating trends are illustrated on the graphs below and on the following page. Sales increased by 4.38%, from \$4,539,324 in 2022 to \$4,738,087 in 2023. Cost of sales had an increase of 4.94%, from \$3,245,750 in 2022 to \$3,406,101 in 2023.

Liquor Fund



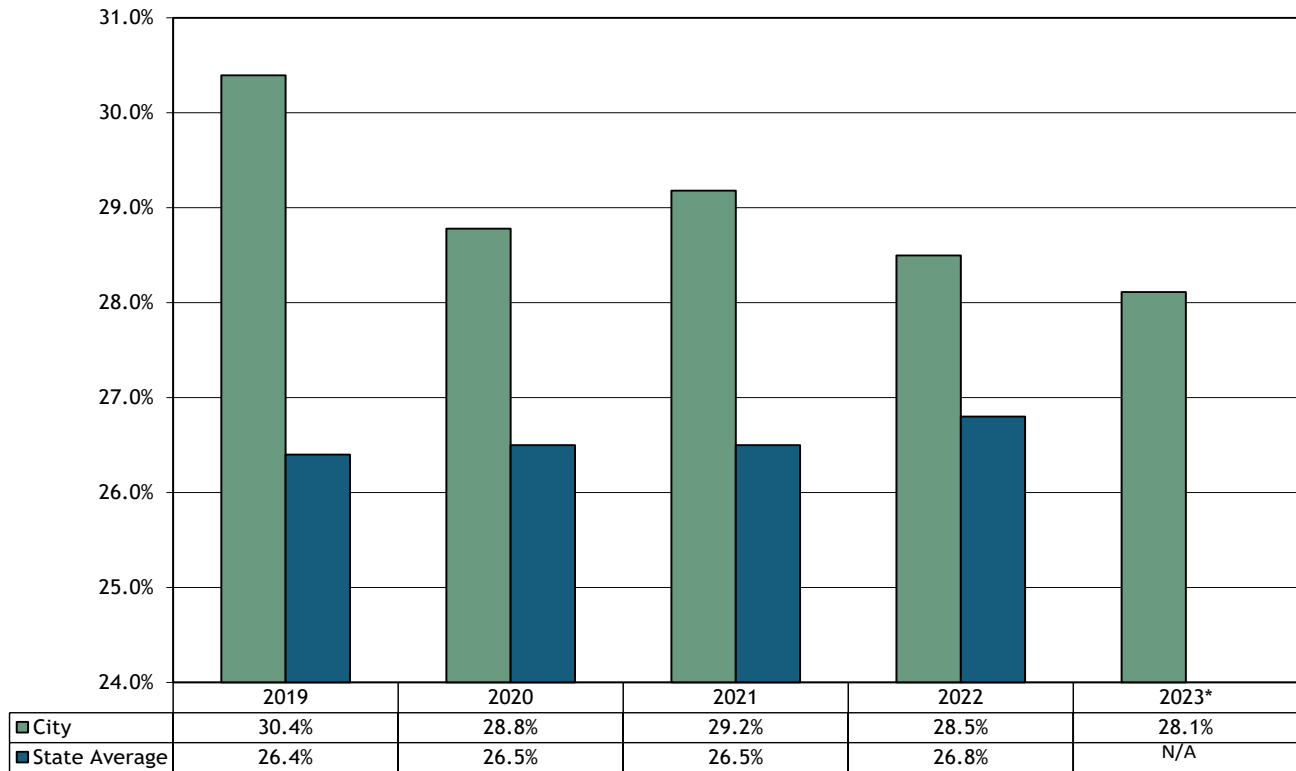
	2019	2020	2021	2022	2023
■ Sales	\$3,858,216	\$4,631,500	\$4,551,173	\$4,539,324	\$4,738,087
■ Cost of Sales and Operating Expenses	3,280,685	3,913,299	3,799,070	3,898,787	4,123,352
■ Operating Income	577,531	718,201	752,103	640,537	614,735

**City of Fairmont
Financial Analysis**

Liquor Fund (Continued)

Gross profit percentage decreased from 28.5% in 2022 to 28.1% in 2023. The Liquor Fund had operating income of \$614,791 in 2023, a decrease from the operating income of \$640,537 in 2022. This was primarily due to increased salaries and benefits.

Liquor Fund Gross Profit Percentage



*2023 State Average is not yet available.

City of Fairmont Emerging Issues

Executive Summary

The following is an executive summary of financial related updates to assist you in staying current on emerging issues in accounting and finance. This summary will give you a preview of the new standards that have been recently issued and what is on the horizon for the near future. The most recent and significant updates include:

- ◆ **Implementation Guide No. 2021-1 - Amending Capitalization Requirements**
GASB has issued Implementation Guide No. 2021-1, amending previously issued guidance regarding capitalization requirements for capital assets that are significant in the aggregate but below the government's capitalization threshold individually.
- ◆ **Accounting Standard Update - GASB Statement No. 100 - Accounting Changes and Error Corrections**
GASB has issued GASB Statement No. 100 relating to accounting and financial reporting for accounting changes and error corrections. The requirements of this Statement will improve the clarity of the accounting and financial reporting requirements for accounting changes and error corrections, which will result in greater consistency in application in practice. In turn, more understandable, reliable, relevant, consistent, and comparable information will be provided to financial statement users for making decisions or assessing accountability.
- ◆ **Accounting Standard Update - GASB Statement No. 101 - Compensated Absences**
GASB has issued GASB Statement No. 101 relating to accounting and financial reporting for compensated absences. The unified recognition and measurement model in this Statement will result in a liability for compensated absences that more appropriately reflects when a government incurs an obligation. In addition, the model can be applied consistently to any type of compensated absence and will eliminate potential comparability issues between governments that offer different types of leave.

The following are extensive summaries of the current updates. As your continued business partner, we are committed to keeping you informed of new and emerging issues. We are happy to discuss these issues with you further and their applicability to your City.

Implementation Guide No. 2021-1 - Amending Capitalization Requirements

Implementation Guide No. 2021-1, amended previously issued guidance contained in Implementation Guide No. 2015-1 regarding capitalization requirements for capital assets that are significant in the aggregate.

Original guidance stated that it *may be* appropriate for a government to establish a capitalization policy that would require capitalization for certain types of assets with individual acquisition costs that are less than the threshold for an individual asset.

Amended guidance states that a government *should* capitalize assets whose individual acquisition costs are less than the threshold for an individual asset if those assets in the aggregate are significant. Computers and classroom furniture are common examples of asset types that could be significant collectively. The amended guidance clarifies that if 100 computers costing \$1,500 each totaling a \$150,000 aggregate amount is significant, the government *should* capitalize the computers.

Information provided above was obtained from www.gasb.org.

**City of Fairmont
Emerging Issues**

Accounting Standard Update - GASB Statement No. 100 - *Accounting Changes and Error Corrections - an Amendment of GASB Statement No. 62*

The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability.

This Statement defines accounting changes as changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity and describes the transactions or other events that constitute those changes. As part of those descriptions, for (1) certain changes in accounting principles and (2) certain changes in accounting estimates that result from a change in measurement methodology, a new principle or methodology should be justified on the basis that it is preferable to the principle or methodology used before the change. That preferability should be based on the qualitative characteristics of financial reporting - understandability, reliability, relevance, timeliness, consistency, and comparability. This Statement also addresses corrections of errors in previously issued financial statements.

This Statement prescribes the accounting and financial reporting for (1) each type of accounting change and (2) error corrections. This Statement requires that (a) changes in accounting principles and error corrections be reported retroactively by restating prior periods, (b) changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period, and (c) changes in accounting estimates be reported prospectively by recognizing the change in the current period. The requirements of this Statement for changes in accounting principles apply to the implementation of a new pronouncement in absence of specific transition provisions in the new pronouncement.

This Statement also requires that the aggregate amount of adjustments to and restatements of beginning net position, fund balance, or fund net position, as applicable, be displayed by reporting unit in the financial statements.

This Statement requires disclosure in notes to financial statements of descriptive information about accounting changes and error corrections, such as their nature. In addition, information about the quantitative effects on beginning balances of each accounting change and error correction should be disclosed by reporting unit in a tabular format to reconcile beginning balances as previously reported to beginning balances as restated.

Furthermore, this Statement addresses how information that is affected by a change in accounting principle or error correction should be presented in Required Supplementary Information (RSI) and Supplementary Information (SI). For periods that are earlier than those included in the basic financial statements, information presented in RSI or SI should be restated for error corrections, if practicable, but not for changes in accounting principles.

GASB Statement No. 100 is effective for reporting periods beginning after June 15, 2023. Earlier application is encouraged.

Information provided above was obtained from www.gasb.org.

**City of Fairmont
Emerging Issues**

Accounting Standard Update - GASB Statement No. 101 - *Compensated Absences*

The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures.

This Statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. Leave is attributable to services already rendered when an employee has performed the services required to earn the leave. Leave that accumulates is carried forward from the reporting period in which it is earned to a future reporting period during which it may be used for time off or otherwise paid or settled. In estimating the leave that is more likely than not to be used or otherwise paid or settled, a government should consider relevant factors such as employment policies related to compensated absences and historical information about the use or payment of compensated absences. However, leave that is more likely than not to be settled through conversion to defined benefit postemployment benefits should not be included in a liability for compensated absences.

This Statement requires that a liability for certain types of compensated absences - including parental leave, military leave, and jury duty leave - not be recognized until the leave commences. This Statement also requires that a liability for specific types of compensated absences not be recognized until the leave is used.

This Statement also establishes guidance for measuring a liability for leave that has not been used, generally using an employee's pay rate as of the date of the financial statements. A liability for leave that has been used but not yet paid or settled should be measured at the amount of the cash payment or noncash settlement to be made. Certain salary-related payments that are directly and incrementally associated with payments for leave also should be included in the measurement of the liabilities.

With respect to financial statements prepared using the current financial resources measurement focus, this Statement requires that expenditures be recognized for the amount that normally would be liquidated with expendable available financial resources.

This Statement amends the existing requirement to disclose the gross increases and decreases in a liability for compensated absences to allow governments to disclose only the net change in the liability (as long as they identify it as a net change). In addition, governments are no longer required to disclose which governmental funds typically have been used to liquidate the liability for compensated absences.

GASB Statement No. 101 is effective for reporting periods beginning after December 15, 2023. Earlier application is encouraged.

Information provided above was obtained from www.gasb.org.

**City of Fairmont
Martin County, Minnesota**

**Schedule of Expenditures of Federal Awards and
Reports on Compliance with
Government Auditing Standards and
Legal Compliance**

December 31, 2023

**City of Fairmont
Table of Contents**

Schedule of Expenditures of Federal Awards	1
Notes to the Schedule of Expenditures of Federal Awards	2
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	3
Report on Compliance for each Major Federal Program and on Internal Control Over Compliance Performed in Accordance with the Uniform Guidance	5
Schedule of Findings and Questioned Costs	8
Minnesota Legal Compliance	10

City of Fairmont
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2023

Federal Grantor/Pass-Through Grantor/Grant Program Title	Federal Assistance Listing Number	Expenditures
Department of Commerce		
Economic Adjustment Assistance	11.307C	<u>\$ 610,000</u>
Department of Treasury		
COVID - American Rescue Plan	21.027	<u>1,032,255</u>
Environmental Protection Agency		
Passed through State of Minnesota Public Facilities Authority		
Capitalization Grants for Clean Water State Revolving Funds (Cluster)	66.458	<u>405,114</u>
Total federal expenditures		<u><u>\$ 2,047,369</u></u>
Balance of RLF loans outstanding at year end		\$ 260,892
Cash and investment balances in the RLF at year end		<u>349,108</u>
Subtotal		<u>610,000</u>
Federal share of the RLF		100%
Total Expenditures		<u><u>\$ 610,000</u></u>

City of Fairmont
Notes to Schedule of Expenditures of Federal Awards

NOTE 1 - BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal award activity of the City under programs of the federal government for the year-ended December 31, 2023. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3 - PASS-THROUGH GRANT NUMBERS

All pass-through entities listed above use the same Assistance Listing numbers as the federal grantors to identify these grants and have not assigned any additional identifying numbers.

NOTE 4 - INDIRECT COST RATE

The City did not elect to use the 10 percent de minimis indirect cost rate, as allowed under the Uniform Guidance.



**Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an
Audit of Financial Statements Performed in Accordance with
*Government Auditing Standards***

Independent Auditor's Report

Honorable Mayor and Members
of the City Council
City of Fairmont
Fairmont, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Fairmont, Minnesota, as of and for the year ended December 31, 2023, and the related notes to financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 4, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

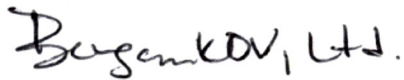
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses, or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City’s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the City’s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



St. Cloud, Minnesota
June 4, 2024



**Report on Compliance for each Major Federal Program
and Report on Internal Control over Compliance in Accordance with
the Uniform Guidance**

Independent Auditor's Report

Honorable Mayor and Members
of the City Council
City of Fairmont
Fairmont, Minnesota

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the City's compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on the City's major federal program for the year ended December 31, 2023. The City's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2023.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the City's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the City's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the City's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the City's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- ◆ Exercise professional judgment and maintain professional skepticism throughout the audit.
- ◆ Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the City's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- ◆ Obtain an understanding of the City's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the City of Fairmont's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Report on Internal Control over Compliance (Continued)

Our consideration of internal control over compliance was for the limited purpose described in Auditor's Responsibilities for the Audit of Compliance section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Bergemkov, Ltd.

St. Cloud, Minnesota
June 4, 2024

**City of Fairmont
Schedule of Findings and Questioned Costs**

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: We issued an unmodified opinion on the fair presentation of the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information in accordance with accounting principles generally accepted in the United States of America (GAAP).

Internal control over financial reporting:
 ◆ Material weakness(es) identified? No
 ◆ Significant deficiency(ies) identified? None reported

Noncompliance material to financial statements noted? No

Federal Awards

Type of auditor's report issued on compliance for major programs: Unmodified

Internal control over major programs:
 ◆ Material weakness(es) identified? No
 ◆ Significant deficiency(ies) identified? None reported

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? No

Identification of Major Programs

Assistance Listing No.: 21.027
Name of Federal Program or Cluster: COVID-19 American Rescue Plan Act

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low risk auditee? No

**City of Fairmont
Schedule of Findings and Questioned Costs**

SECTION II - FINANCIAL STATEMENT FINDINGS

None

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no questioned costs.

SECTION IV - PRIOR YEAR FINDINGS AND QUESTIONED COSTS

None



Minnesota Legal Compliance

Independent Auditor's Report

Honorable Mayor and Members
of the City Council
City of Fairmont
Fairmont, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Fairmont, Minnesota as of and for the year ended December 31, 2023, and the related notes to financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 4, 2024.

In connection with our audit, nothing came to our attention that caused us to believe that the City failed to comply with the provisions of the contracting - bid laws, depositories of public funds and public investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing sections of the *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to *Minnesota Statutes § 6.65*, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City's noncompliance with the above referenced provisions, insofar as they relate to accounting matters.

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.

BerganKDV, Ltd.

St. Cloud, Minnesota
June 4, 2024