



Request for Council Action

TO: Mayor and City Council
THROUGH: Tim Murray, City Administrator
FROM: Jeanne Day, Finance Director
MEETING DATE: May 11, 2021
SUBJECT: Presentation of the 2020 Comprehensive Annual Financial Report

Background:

The City selected the audit firm of BerganKDV to audit the 2020 financial records of the City and assist the Finance Department in preparing the Comprehensive Annual Financial Report. This is the third year that the firm has completed the annual audit. Matt Mayer, Audit Partner at BerganKDV, will be presenting summary data and reviewing the management letter related to the 2020 Comprehensive Annual Financial Report.

The CAFR has been prepared in accordance with the award program criteria set by the National Government Finance Officers Association (GFOA). The City has been awarded the GFOA Certificate of Achievement for Excellence in Financial Reporting for the past 29 years. The City will be submitting the 2019 Comprehensive Annual Financial Report for consideration of this award in anticipation of success for the 30th year.

Recommendation:

City Staff recommends approval of the 2020 Comprehensive Annual Financial Report, Communications Letter, and Reports on Compliance

Attachments:

- Communications Letter
- Reports on Compliance
- 2020 Comprehensive Annual Financial Report

**City of Faribault
Rice County, Minnesota**

Communications Letter

December 31, 2020



**City of Faribault
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Report on Matters Identified as a Result of the Audit of the Financial Statements

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

In planning and performing our audit of the financial statements of the governmental activities, business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Faribault, Minnesota, as of and for the year ended December 31, 2020, 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.

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 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.

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.

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 dated May 4, 2021, on such statements.

This communication is intended solely for the information and use of the City Council and management and others within the City and state oversight agencies and is not intended to be, and should not be, used by anyone other than these specified parties.

BerganKDV Ltd.

Minneapolis, Minnesota
May 4, 2021

City of Faribault Required Communication

We have audited the financial statements of the governmental activities, business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of and for the year ended December 31, 2020. 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 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 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 financial statements are free of material misstatement. An audit of 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 audited 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 financial statements, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Our responsibility with respect to the other information in documents containing the audited financial statements and auditor's report does not extend beyond the 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 Faribault Required Communication

Our Responsibility in Relation to *Government Auditing Standards*

As communicated in our engagement letter, part of obtaining reasonable assurance about whether the 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 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.

Qualitative Aspects of 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 financial statements. There have been no initial selection of accounting policies and no changes to significant accounting policies or their application during 2019. 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.

City of Faribault Required Communication

Qualitative Aspects of Significant Accounting Practices (Continued)

Significant Accounting Estimates

Accounting estimates are an integral part of the 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 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 financial statements are:

Depreciation – The City is currently depreciating its capital assets over their estimated useful lives, as determined by management, using the straight-line method.

Expense Allocation – Certain expenses are allocated to programs based on an estimate of the benefit to that particular program. Examples are salaries, benefits, and supplies.

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 Related to Pensions and Deferred Inflows of Resources Related 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 financial statements taken as a whole and in relation to the applicable opinion units.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The 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.

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 financial statements taken as a whole and each applicable opinion unit. Management has corrected all such misstatements.

City of Faribault Required Communication

Uncorrected and Corrected Misstatements (Continued)

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 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 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, operating and regulatory conditions affecting the City, and operating 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 in Documents Containing Audited Financial Statements

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.

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 financial statements or to the financial statements themselves.

**City of Faribault
Required Communication**

Other Information in Documents Containing Audited Financial Statements (Continued)

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

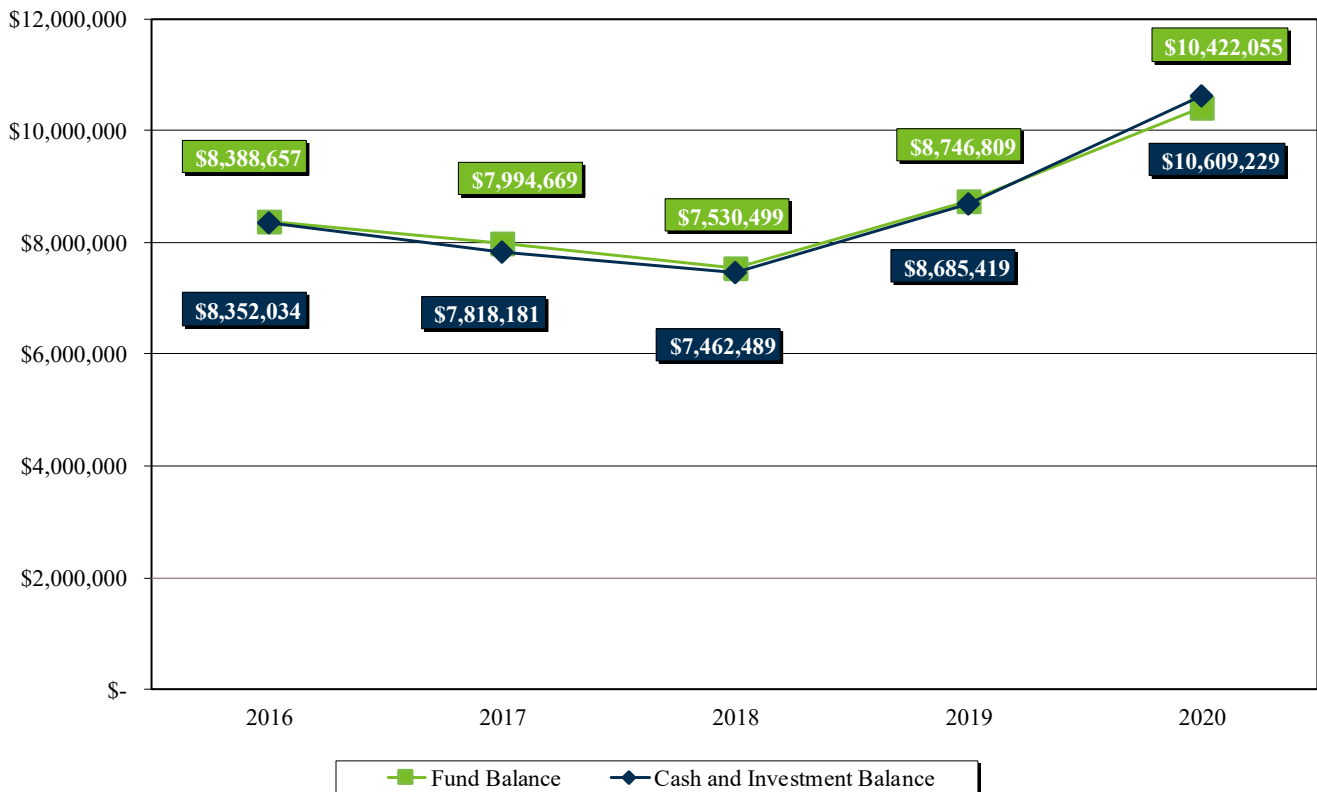
City of Faribault Financial Analysis

The following pages provide graphic representations 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. We suggest you view each graph and document if our analysis is consistent with yours. A subsequent discussion of this information should be useful for planning purposes.

General Fund – Fund Balance

The following graph illustrates the relationship between cash and investments and fund balance over the past five years. At December 31, 2020, the General Fund balance consisted of \$76,482 nonspendable, \$91,819 restricted, \$384,121 committed, \$639,106 assigned, and \$9,230,527 unassigned. The total unassigned fund balance represented over six and a half months of expenditures at current levels. The City's Fund Balance Policy states that the City will maintain an unassigned fund balance amount not less than 35% and a maximum of 50% of the next year's budgeted expenditures in the General Fund. Based on the 2021 budgeted expenditures of \$18,411,969, the City's unassigned General Fund balance was at 50% at December 31, 2020.

Cash and Investments and Fund Balance



On the following pages, we will discuss the revenues and expenditures of the General Fund and the variations in the fund balance.

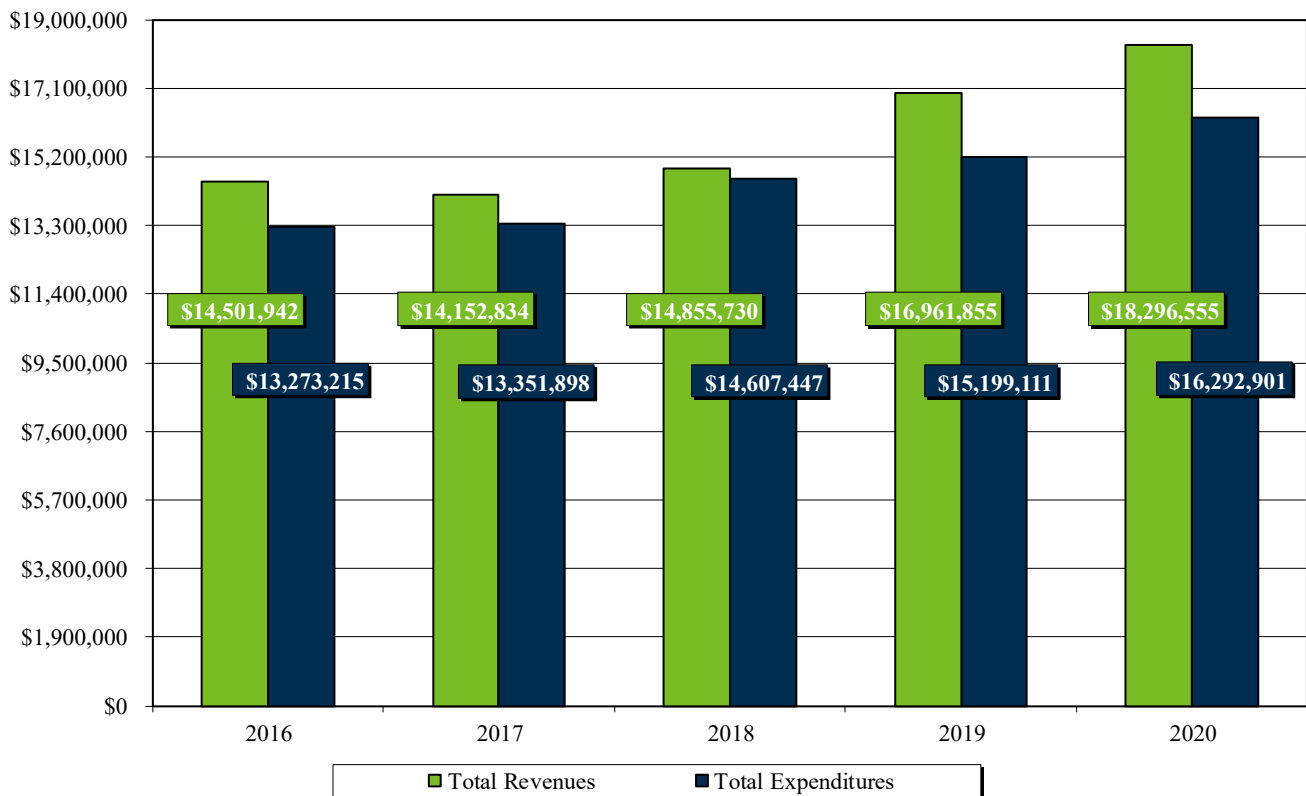
City of Faribault Financial Analysis

General Fund – Revenues and Expenditures

The following table and graph show the overall operations of the General Fund. Revenues have fluctuated over the five years shown from a high in 2020 of \$18,296,555 to a low of \$14,152,834 in 2017. Overall, from 2016 to 2020, revenues have increased \$3,794,613. Similarly, expenditures have fluctuated over the five years presented. In 2020, expenditures were \$16,292,901, an increase from the prior year expenditure total of \$15,199,111. Since 2016, expenditures have increased \$3,019,686. Transfers out were made for capital related items.

	2016	2017	2018	2019	2020
Revenues	\$ 14,501,942	\$ 14,152,834	\$ 14,855,730	\$ 16,961,855	\$ 18,296,555
Expenditures	13,273,215	13,351,898	14,607,447	15,199,111	16,292,901
Proceeds from the sale of capital assets	-	1,803	-	-	1
Net transfers	(1,059,090)	(1,196,727)	(712,453)	(546,434)	(328,409)
Net change in fund balance	\$ 169,637	\$ (393,988)	\$ (464,170)	\$ 1,216,310	\$ 1,675,246

Revenues and Expenditures



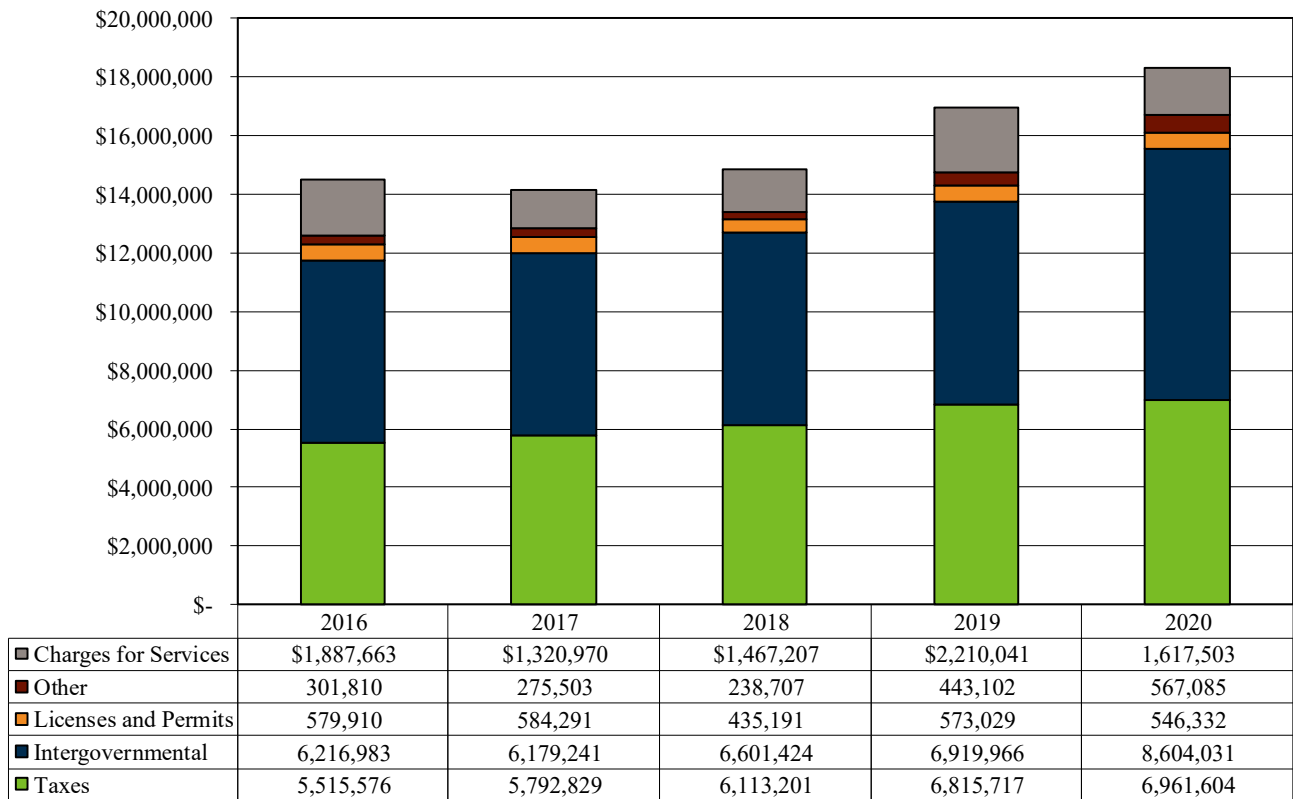
City of Faribault Financial Analysis

General Fund – Revenues

The following graph presents comparisons of revenues by type, illustrating the majority of revenue for the City is from intergovernmental sources, taxes, and charges for services. These three sources represent 47.0%, 38.1%, and 8.8% of total General Fund revenues, respectively. Other revenues include items such as licenses and permits, fines and forfeitures, special assessments, investment earnings, and other miscellaneous items.

Revenues of the General Fund increased from 2019 to 2020 by \$1,334,700. Intergovernmental revenue increased \$1,684,065 due to funding received from Coronavirus Aid, Relief, and Economic Security Act (CARES). Property taxes increased \$145,887 due to an increase in the amount of property tax levied for the General Fund. The other revenue category increased \$123,983 due in large part to increased donations received. These increases were partially offset by charges for services decreasing by \$592,538 due to a decline in the number of projects occurring in 2020 and the related engineering fees.

General Fund Revenues



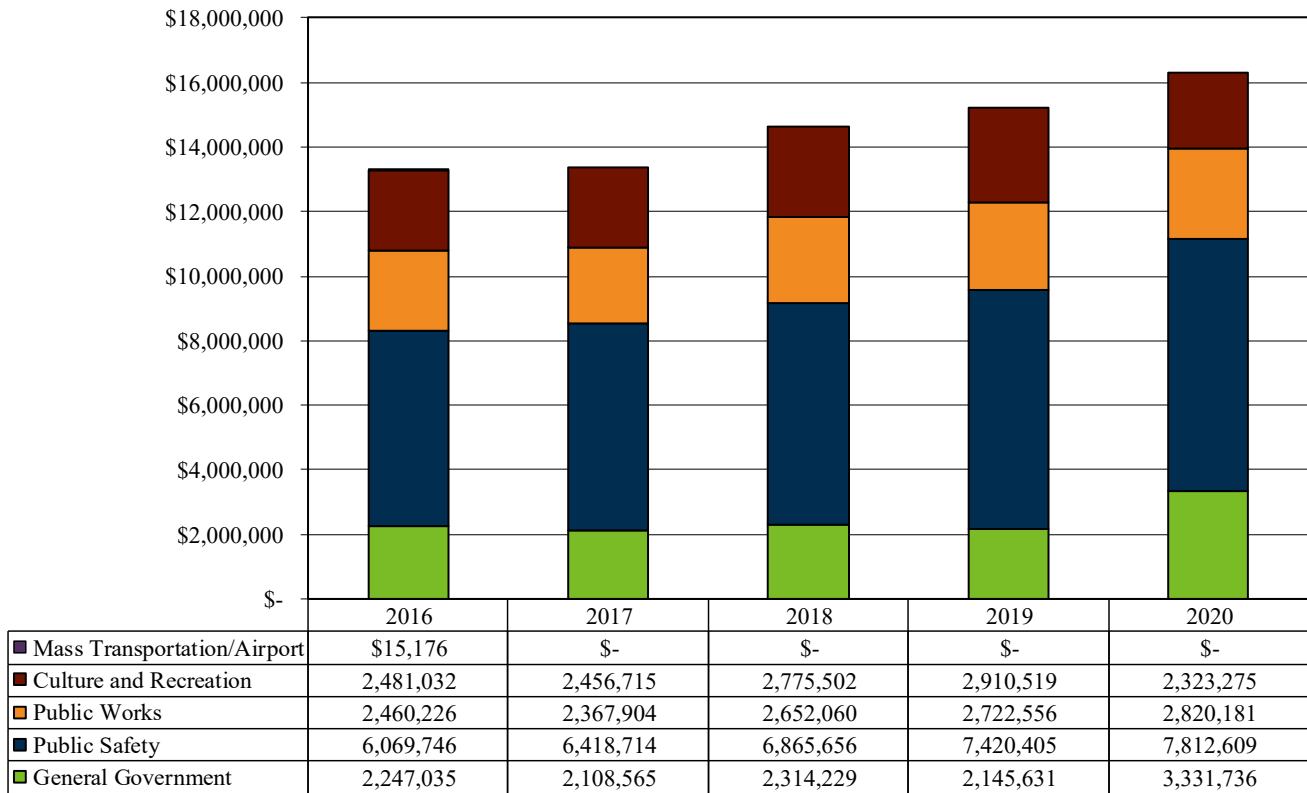
City of Faribault Financial Analysis

General Fund – Expenditures

The graph below represents the breakdown of expenditures by department. Public safety continues to comprise the largest portion of General Fund expenditures, representing 48.0%. Overall, General Fund expenditures increased \$1,093,790 from 2019.

General government had the largest increase of \$1,186,105 due in large part to a transfer of funds to the Economic Development Authority (EDA) component unit. Public safety increased \$392,204 as a result of increased operating expenditures along with increased salary and benefit expenditures. Culture and recreation decreased \$587,244 due in large part to the effects of COVID-19 on programming, specifically a drop in temporary employee wages compared to the previous year.

General Fund Expenditures



**City of Faribault
Financial Analysis**

General Fund – Budgetary Comparison

	Original Budget	Final Budget	Actual Amounts	Variance With Final Budget -
Revenues				
Property taxes	\$6,759,123	\$6,759,123	\$6,961,604	\$ 202,481
Special assessments	17,600	17,600	15,162	(2,438)
Licenses and permits	490,450	490,450	546,332	55,882
Intergovernmental	6,737,507	6,745,074	8,604,031	1,858,957
Charges for services	2,046,534	2,146,534	1,617,503	(529,031)
Fines and forfeitures	136,000	136,000	101,186	(34,814)
Miscellaneous revenues	106,400	106,400	450,737	344,337
Total revenue	16,293,614	16,401,181	18,296,555	1,895,374
Expenditures				
General government	2,834,266	3,574,827	3,331,736	(243,091)
Public safety	7,944,609	7,990,054	7,817,709	(172,345)
Public works	2,754,143	2,786,465	2,820,181	33,716
Culture and recreation	2,934,196	2,942,155	2,323,275	(618,880)
Mass transportation and airport	26,400	26,400	-	(26,400)
Total expenditures	16,493,614	17,319,901	16,292,901	(1,027,000)
Excess of revenue over (under) expenditures	(200,000)	(918,720)	2,003,654	2,922,374
Other Financing Sources (Uses)				
Proceeds from sale of capital assets	-	-	1	1
Net transfers	200,000	(120,000)	(328,409)	(208,409)
Total other financing sources (uses)	200,000	(120,000)	(328,408)	(208,408)
Net change in fund balances	\$ -	\$(1,038,720)	\$ 1,675,246	\$ 2,713,966

Overall, actual revenue was \$1,895,374, or 11.6%, over budget. The intergovernmental category was \$1,858,957 over budget due to CARES funding that was not budgeted. Miscellaneous revenues were \$344,337 over budget due to donations and investment earnings exceeding budgetary projections. Charges for services were \$529,031 under budget due in part to the decrease in the number of projects occurring in 2020 for which engineering fees for services are based. These services can vary from year-to-year and are dependent on the magnitude of projects occurring during the year. All other revenue categories were relatively consistent with the budget.

Overall, actual expenditures were less than budgeted amounts by \$1,027,000. Culture and recreation was under budget \$618,880 due in large part to the impact of COVID-19 on programming and recreation services. Public safety was under budget \$172,345 primarily due in part to conservative budgeting for full-time employee wages. General government came in under budget by \$243,091 due primarily to less-than-anticipated spending for legal fees, professional fees, and budget contingencies.

City of Faribault Financial Analysis

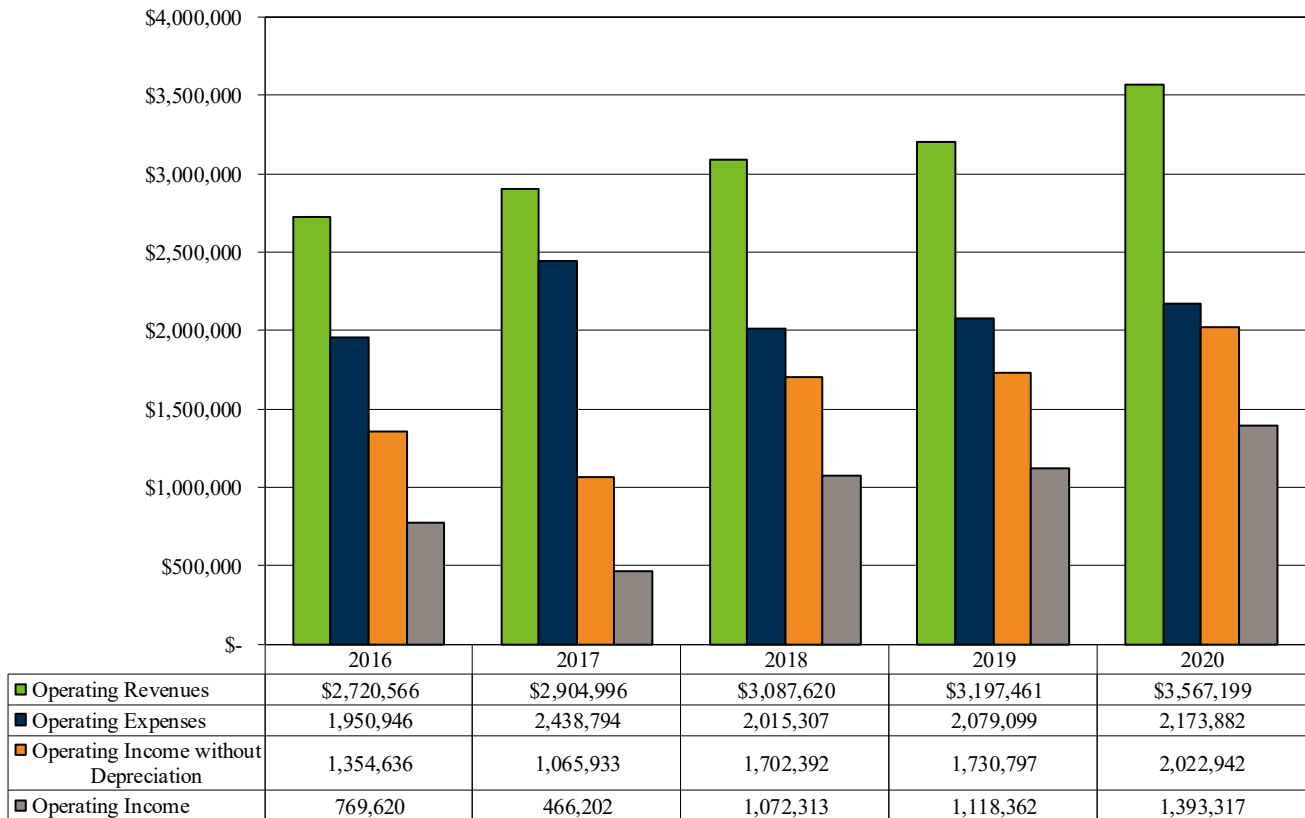
Water Enterprise Fund

The following graph illustrates the current operations of the Water Fund for the past five years. Operating income is shown with and without depreciation below.

Operating revenue increased \$369,738, or 11.6%, from 2019 due to increased rates and consumption during 2020. Operating expenses increased by \$94,783, or 4.6%. The increase is due in part to increased expenses for materials, supplies, and maintenance costs. The net effect of the increased revenues and increased expenses is operating income of \$1,393,317.

Enterprise funds may be used to account for any activity in which a fee is charged. It is not required to have the fee support the entire activity; however, the basic premise in establishing an enterprise fund is that the activity will be operated similar to a business. Therefore, it is expected the enterprise fund would at least be able to meet its obligations currently and into the future.

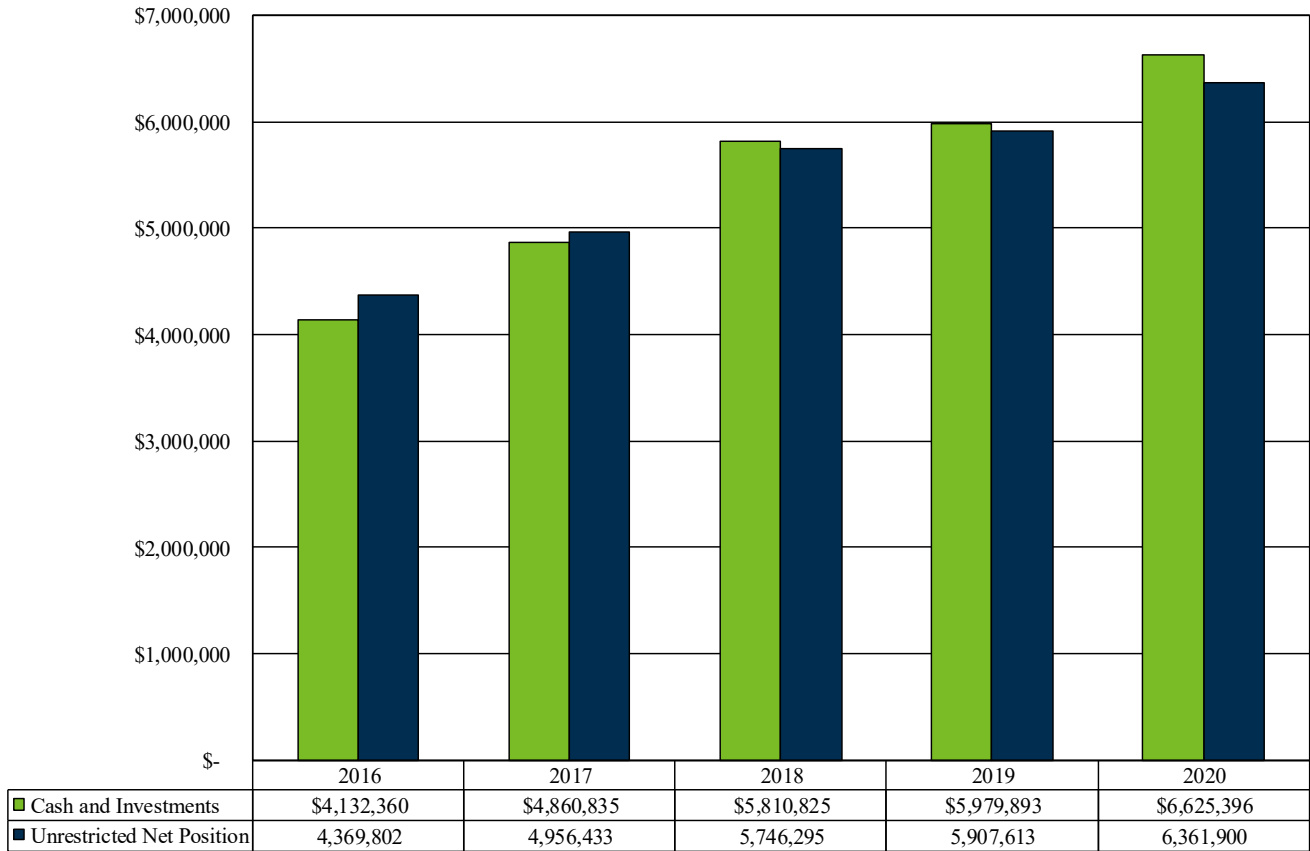
Water Operations



**City of Faribault
Financial Analysis**

Water Enterprise Fund (Continued)

Water Fund



This graph shows the cash & investment and unrestricted net position balances as of December 31 for the last five years. The Water Fund cash and investment balance has increased \$2,493,036 since 2016. The cash and investment balance increased \$645,503 during 2020 while the unrestricted net position for the Water Fund increased \$454,287 during the same time period.

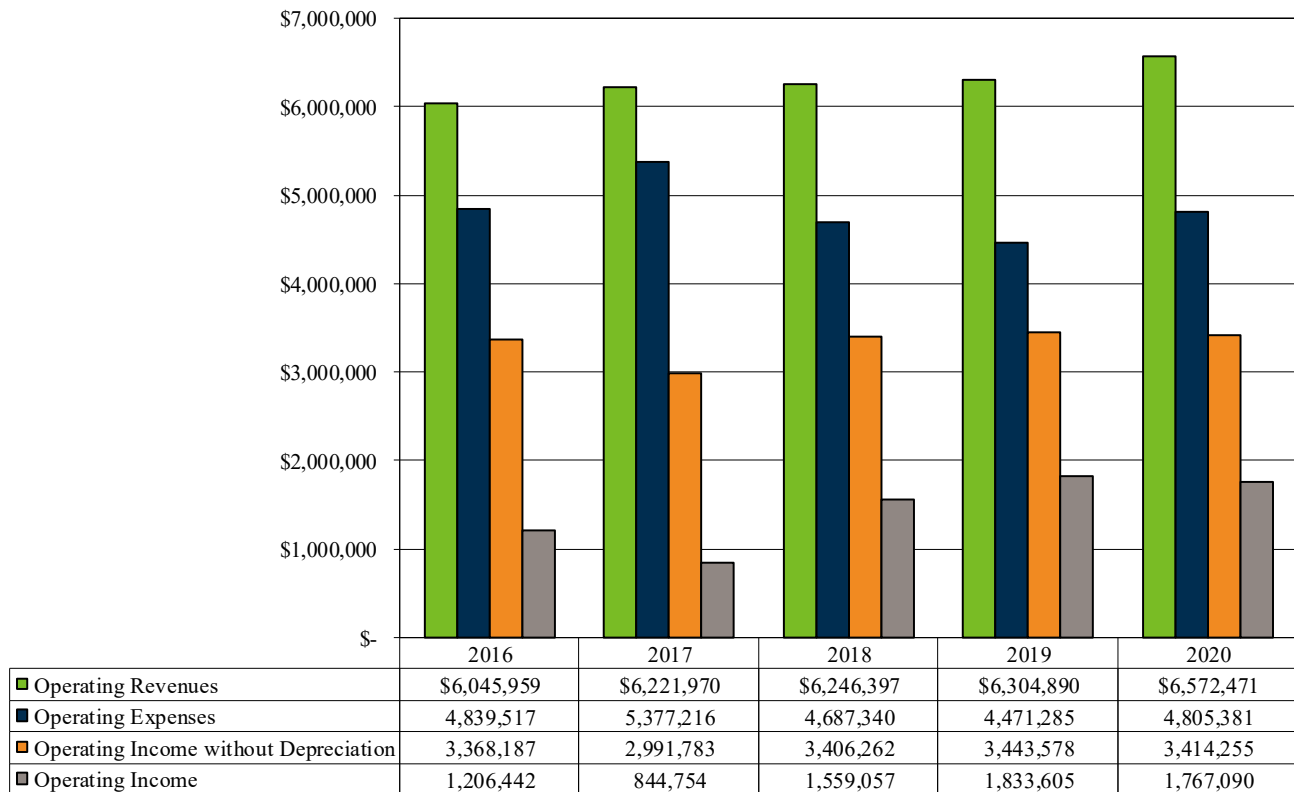
City of Faribault Financial Analysis

Sewer Enterprise Fund

The following graph illustrates the current operations of the Sewer Fund for the past five years. Operating income is shown with and without depreciation below.

The Sewer Fund has shown an operating income in each of the five years presented. In 2020, the Fund showed an operating income of \$1,767,090. This is a decrease in operating income of \$66,515 from 2019. The Fund experienced an increase in operating revenue of \$267,581 due to increases in sewer access charge and septic disposal revenue. Operating expenses increased \$334,096 due to increases in salaries and benefits along with an uptick in materials, supplies, and equipment needed.

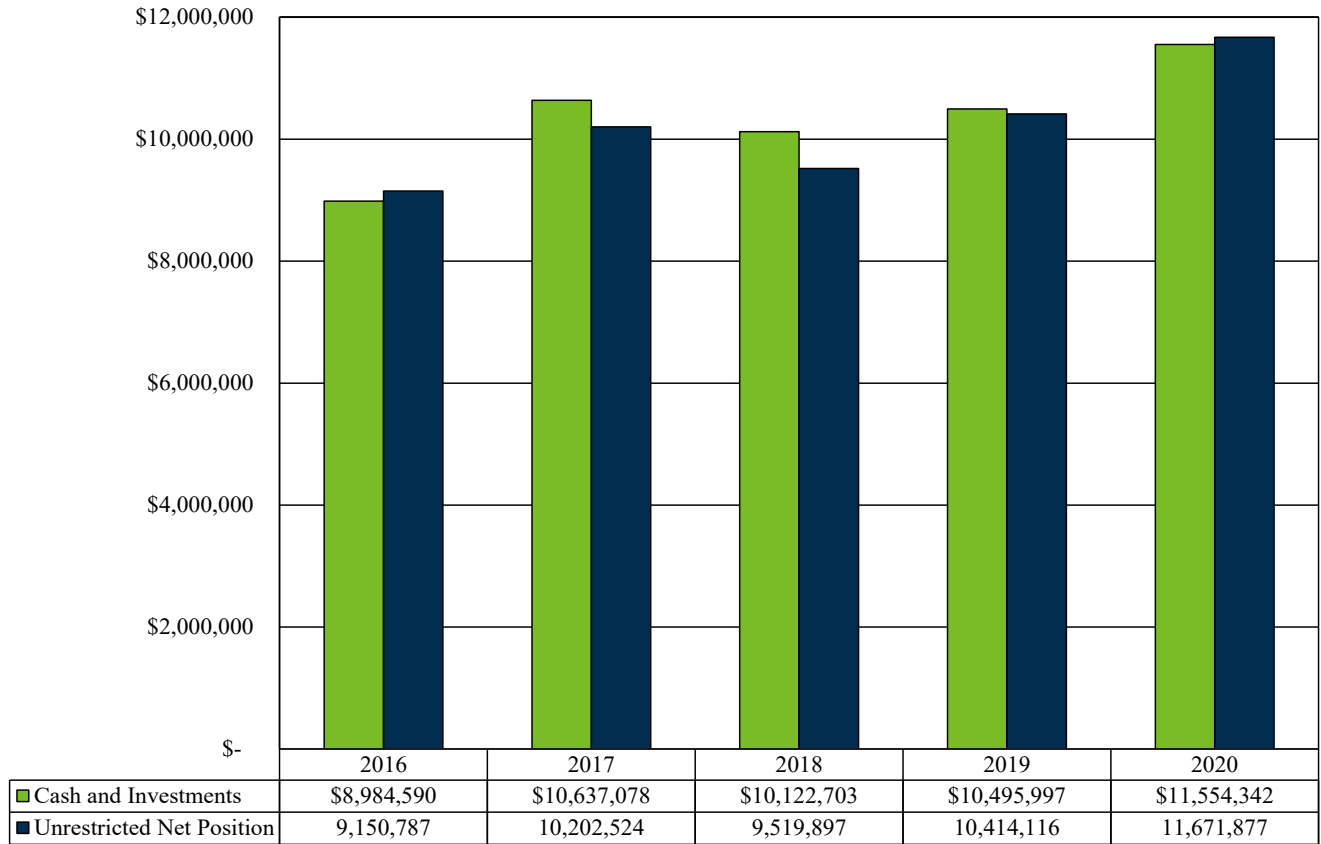
Sewer Operations



**City of Faribault
Financial Analysis**

Sewer Enterprise Fund (Continued)

Sewer Fund



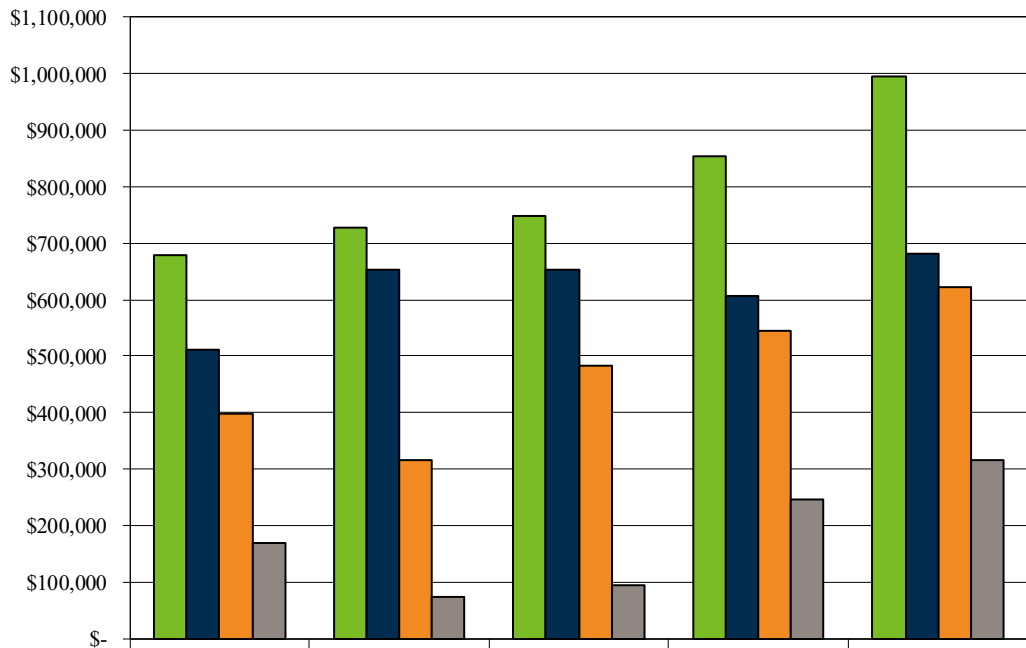
The graph above shows the cash and investment and unrestricted net position balances as of December 31 for the last five years. The Sewer Fund cash and investment balance increased \$1,058,345 while the unrestricted net position increased \$1,257,761 in 2020.

City of Faribault Financial Analysis

Storm Water Enterprise Fund

The following graph illustrates the current operations of the Storm Water Fund for the past five years. For all five years shown, the City's Storm Water Fund has generated an operating income. Operating revenue increased \$143,222 or 16.8%, while expenses increased \$75,674, or 12.5%, compared to 2019. Revenue increased with increased rates while expenses increased primarily related to maintenance needs. The net effect of the changes in revenues and expenses is operating income of \$314,799.

Storm Sewer Operations

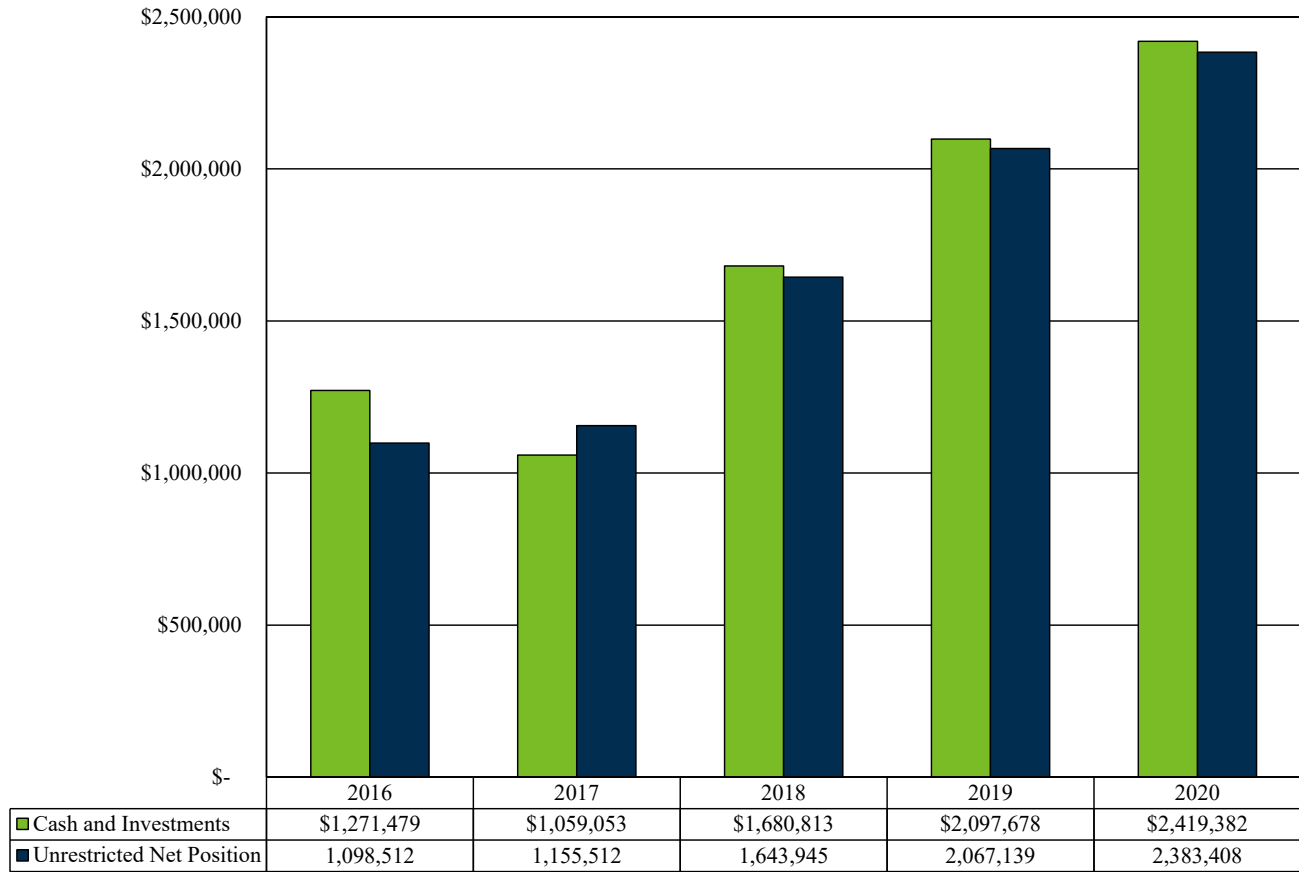


	2016	2017	2018	2019	2020
Operating Revenues	\$678,440	\$727,132	\$748,477	\$853,256	\$996,478
Operating Expenses	510,484	654,176	653,226	606,005	681,679
Operating Income without Depreciation	396,902	316,689	483,298	544,024	621,672
Operating Income	167,956	72,956	95,251	247,251	314,799

**City of Faribault
Financial Analysis**

Storm Water Enterprise Fund (Continued)

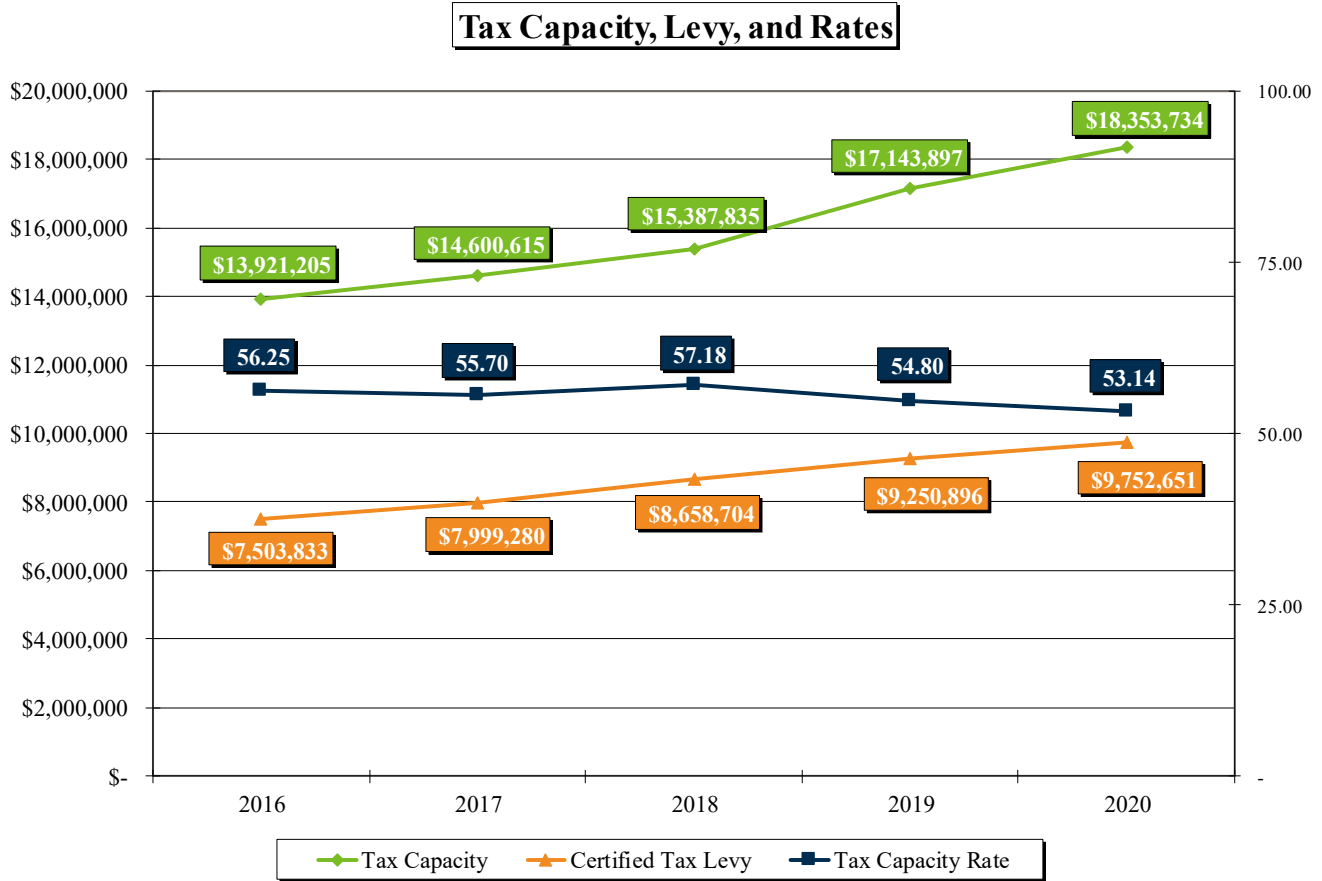
Storm Sewer Fund



As of December 31, 2020, the Storm Water Fund had an ending net cash and investment balance of \$2,419,382. This is an increase of \$321,704 compared to 2019. Unrestricted net position at year-end was \$2,383,408.

City of Faribault Financial Analysis

Tax Capacity, Levy, and Rates



The chart above graphs the tax capacity (not including Tax Increment Financing (TIF) Districts), tax capacity rate and certified tax levy for 2016 through 2020. The tax capacity is based on total tax capacity, prior to adjustments for captured TIF.

Comparing 2016 through 2020, the City's tax capacity has increased from \$13,921,205 to \$18,353,734 or \$4,432,529 in five years. This is a 31.8% increase in tax capacity. The City's certified levy over this same time frame has increased \$2,248,818, or 30.0%.

City of Faribault Financial Analysis

Governmental Activities

The tables below and on the following page illustrate the City's various sources of revenue and expenditures per capita over a three-year period in comparison to 2019 data for Minnesota cities ranked by various sizes.

Governmental Funds Revenue Per Capita with State-Wide Averages by Population Class

Year	State-Wide*			City of Faribault**		
	December 31, 2019			2018	2019	2020
Population	2,500-10,000	10,000-20,000	20,000-100,000	23,352	23,851	23,912
Property taxes	\$ 514	\$ 489	\$ 512	\$ 373	\$ 388	\$ 409
Tax increments	30	28	44	1	1	1
Franchise fees and other taxes	44	50	50	44	47	10
Special assessments	54	38	53	34	28	27
Licenses and permits	40	35	51	19	24	23
Intergovernmental revenues	342	297	201	457	729	494
Charges for services	134	108	115	87	119	112
Other	88	78	79	16	54	62
Total revenue	<u>\$ 1,246</u>	<u>\$ 1,123</u>	<u>\$ 1,105</u>	<u>\$ 1,031</u>	<u>\$ 1,390</u>	<u>\$ 1,138</u>

* State-wide data obtained from the Office of the State Auditor's *2019 Minnesota City Finances Report*. Comparative data for 2020 is not yet available.

** Population was estimated based on latest available data.

The City traditionally receives sizeable intergovernmental revenues, including Local Government Aid and, thus, has consistently shown slightly lower tax revenues and lower special assessments revenues per capita and higher intergovernmental revenues per capita compared to the state averages.

City of Faribault Financial Analysis

Governmental Activities (Continued)

Governmental Funds Expenditures Per Capita with State-Wide Averages by Population Class

Year	State-Wide*			City of Faribault**		
	December 31, 2019			2018	2019	2020
Population	2,500-10,000	10,000-20,000	20,000-100,000	23,352	23,851	23,912
Current						
General government	\$ 152	\$ 128	\$ 107	\$ 101	\$ 94	\$ 175
Public safety	300	282	306	294	311	330
Public works	146	149	119	116	116	123
Parks and recreation	104	124	106	162	170	144
Other	74	75	95	38	50	36
Total current	<u>\$ 776</u>	<u>\$ 758</u>	<u>\$ 733</u>	<u>\$ 711</u>	<u>\$ 741</u>	<u>\$ 808</u>
Capital outlay and construction	<u>\$ 436</u>	<u>\$ 376</u>	<u>\$ 358</u>	<u>\$ 298</u>	<u>\$ 664</u>	<u>\$ 309</u>
Debt service						
Principal	\$ 168	\$ 182	\$ 88	\$ 56	\$ 58	\$ 60
Interest and fiscal	43	41	28	14	12	11
Total debt service	<u>\$ 211</u>	<u>\$ 223</u>	<u>\$ 116</u>	<u>\$ 70</u>	<u>\$ 70</u>	<u>\$ 71</u>

* State-wide data obtained from the Office of the State Auditor's *2019 Minnesota City Finances Report*. Comparative data for 2020 is not yet available.

** Population was estimated based on latest available data.

The City's current and debt service expenditures for 2018 and 2019 were less than the state-wide average for a city of a comparable population. Current expenditures increased in 2020 as expected related to the spending of CARES funding. Overall, governmental expenditures decreased \$286 per capita when comparing 2019 to 2020. The decrease was a result of the large variance in capital outlay and construction as the City had significant expenditures on several large street improvement projects in 2019. Debt service expenditures per capita were fairly consistent from 2018 through 2020.

City of Faribault Emerging Issue

Executive Summary

The following is an executive summary of financial and business 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 update includes:

- **Accounting Standard Update – GASB Statement No. 87 – Leases** – GASB has issued GASB Statement No. 87 relating to accounting and financial reporting for leases. This new statement establishes a single model for lease accounting based on the principle that leases are financing of the right to use an underlying asset.

The following is an extensive summary of the current update. As your continued business partner, we are committed to keeping you informed of new and emerging issues. We are happy to discuss this issue with you further and their applicability to your City.

Accounting Standard Update – GASB Statement No. 87 – *Leases*

The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

A lease is defined as a contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction. Examples of nonfinancial assets include buildings, land, vehicles, and equipment. Any contract that meets this definition should be accounted for under the leases guidance, unless specifically excluded in this Statement.

A short-term lease is defined as a lease that, at the commencement of the lease term, has a maximum possible term under the lease contract of 12 months (or less), including any options to extend, regardless of their probability of being exercised. Lessees and lessors should recognize short-term lease payments as outflows of resources or inflows of resources, respectively, based on the payment provisions of the lease contract.

**City of Faribault
Emerging Issue**

Accounting Standard Update – GASB Statement No. 87 – *Leases* (Continued)

A lessee should recognize a lease liability and a lease asset at the commencement of the lease term, unless the lease is a short-term lease or it transfers ownership of the underlying asset. The lease liability should be measured at the present value of payments expected to be made during the lease term (less any lease incentives). The lease asset should be measured at the amount of the initial measurement of the lease liability, plus any payments made to the lessor at or before the commencement of the lease term and certain direct costs. A lessee should reduce the lease liability as payments are made and recognize an outflow of resources (for example, expense) for interest on the liability. The lessee should amortize the lease asset in a systematic and rational manner over the shorter of the lease term or the useful life of the underlying asset. The notes to financial statements should include a description of leasing arrangements, the amount of lease assets recognized, and a schedule of future lease payments to be made.

A lessor should recognize a lease receivable and a deferred inflow of resources at the commencement of the lease term, with certain exceptions for leases of assets held as investments, certain regulated leases, short-term leases, and leases that transfer ownership of the underlying asset. A lessor should not derecognize the asset underlying the lease. The lease receivable should be measured at the present value of lease payments expected to be received during the lease term. The deferred inflow of resources should be measured at the value of the lease receivable plus any payments received at or before the commencement of the lease term that relate to future periods. A lessor should recognize interest revenue on the lease receivable and an inflow of resources (for example, revenue) from the deferred inflows of resources in a systematic and rational manner over the term of the lease. The notes to financial statements should include a description of leasing arrangements and the total amount of inflows of resources recognized from leases.

GASB Statement No. 87 is effective for reporting periods beginning after June 15, 2021.

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

**City of Faribault
Rice County, Minnesota**

**Reports on Compliance with
Government Auditing Standards,
Uniform Guidance, and Legal Compliance**

December 31, 2020



**City of Faribault
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City of Faribault
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2020

Federal Agency/Pass Through Agency/Program Title	Federal CFDA Number	Federal Expenditures
U.S. Department of Housing and Urban Development		
Received directly		
Public Housing Capital Fund	14.872	\$ 72,717
Public and Indian Housing	14.850	32,094
Total U.S. Department of Housing and Urban Development		<u>104,811</u>
U.S. Department of Justice		
Passed through the State of Minnesota		
Community Oriented Police Services	16.710	642
U.S. Department of Transportation		
Passed through the State of Minnesota		
Airport Improvement Program	20.106	30,000
Highway Planning and Construction	20.205	183,677
Total U.S. Department of Transportation		<u>213,677</u>
U.S. Department of Treasury		
Passed through the State of Minnesota		
Coronavirus Relief Fund	21.019	<u>1,799,427</u>
Environmental Protection Agency		
Passed through the State of Minnesota		
Capitalization Grants for Drinking Water State Revolving Funds	66.468	<u>5,754,201</u>
Total Federal Expenditures		<u>\$ 7,872,758</u>

City of Faribault
Notes to Schedule of Expenditures of Federal Awards

NOTE 1 – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Faribault, Minnesota and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the Uniform Guidance. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in, the preparation of the basic financial statements.

NOTE 2 – PASS-THROUGH GRANT NUMBERS

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

NOTE 3 – INDIRECT COST RATE

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

NOTE 4 – OUTSTANDING LOANS

As of December 31, 2020, the city had an outstanding loan with the Minnesota Public Facilities Authority in the amount of \$8,035,731 related to the Capitalization Grants for Drinking Water State Revolving Funds program (CFDA 66.468). In addition to this outstanding balance the City had requested an additional draw as of that date for \$249,687 that was paid to the City and added to the loan balance in the subsequent year.

**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 Faribault
Faribault, 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 units, each major fund, and the aggregate remaining fund information of the City of Faribault, Minnesota as of and for the year ended December 31, 2020, and the related notes to financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated May 4, 2021.

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.

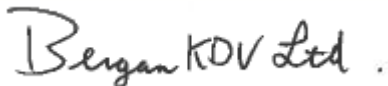
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses, or significant deficiencies. Given these limitations, during our audit we did not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

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.

A handwritten signature in cursive script that reads "BergankDV Ltd." followed by a period.

Minneapolis, Minnesota
May 4, 2021

**Report on Compliance for each Major 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 Faribault
Faribault, Minnesota

Report on Compliance for Each Major Federal Program

We have audited the City's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2020. The City's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

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 each of its major federal programs for the year ended December 31, 2020.

Report on Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. 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. Accordingly, we do not express an opinion on the effectiveness of the City's 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.

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

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.

Report on Schedule of Expenditures of Federal Rewards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Faribault, Minnesota, as of and for the year ended December 31, 2020, and the related notes to financial statements which collectively comprise the City's basic financial statements. We issued our report thereon dated May 4, 2021, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements.

**Report on Schedule of Expenditures of Federal Rewards Required by the Uniform Guidance
(Continued)**

The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Bergan KDV Ltd.

Minneapolis, Minnesota
May 4, 2021

**City of Faribault
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:	
<ul style="list-style-type: none"> • Material weakness(es) identified? • Significant deficiency(ies) identified? 	<p>No</p> <p>No</p>
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:	
<ul style="list-style-type: none"> • Material weakness(es) identified? • Significant deficiency(ies) identified? 	<p>No</p> <p>No</p>
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	No

Identification of Major Programs

CFDA No.:	66.468
Name of Federal Program or Cluster:	Capitalization Grants for Drinking Water State Revolving Funds
Dollar threshold used to distinguish between type A and type B programs:	21.019 Coronavirus Relief Fund
Auditee qualified as low risk auditee?	\$750,000
Auditee qualified as low risk auditee?	No

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

SECTION II – FINANCIAL STATEMENT FINDINGS

There were no financial statement findings.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no Federal award findings.

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 Faribault
Faribault, 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 units, each major fund, and the aggregate remaining fund information of the City of Faribault, Minnesota as of and for the year ended December 31, 2020, and the related notes to financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated May 4, 2021.

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 and bidding, deposits and 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 Statute* § 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.

Minneapolis, Minnesota
May 4, 2021