



**City of Fergus Falls
Otter Tail County, Minnesota**

Communications Letter

December 31, 2024

**City of Fergus Falls
Table of Contents**

Report on Matters Identified as a Result of the Audit of the Basic Financial Statements	1
Significant Deficiency	3
Required Communication	4
Financial Analysis	10
Emerging Issues	28



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 Fergus Falls
Fergus Falls, Minnesota

In planning and performing our audit of the basic financial statements of the governmental activities, business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Fergus Falls, Minnesota, as of and for the year ended December 31, 2024, 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 opinion 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 a deficiency in internal control that we consider to be a significant deficiency.

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.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. The significant deficiency identified is stated within this letter.

The City's written response to the significant deficiency identified in our audit has not been subjected to audit procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

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 20, 2025, 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.

We would like to express our appreciation for the cooperation extended to us by management and employees of the City during our audit.

BerganKDV, Ltd.

St. Cloud, Minnesota
May 20, 2025

City of Fergus Falls Significant Deficiency

Lack of Segregation of Accounting Duties

The City and its discretely presented component units had a lack of segregation of accounting duties due to a limited number of office employees. Although this meets the definition of a significant deficiency, it may not be practical to correct since the costs of hiring a sufficient number of employees to eliminate the significant deficiency may exceed benefits that could be derived. However, management and the City Council must remain aware of this situation and should continually monitor the accounting system, including changes that occur. The lack of adequate segregation of accounting duties could adversely affect the City's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

The lack of segregation of accounting duties can be demonstrated in the following areas, which is not intended to be an all-inclusive list:

- The Finance Director has the ability to post entries to the general ledger.
- The Payroll Officer enters payroll information, calculates payroll, enters the information into the payroll system, prints payroll checks, and submits direct deposits.

City's Response

The City has determined the costs of hiring additional staff for the purpose of further segregation of accounting duties exceeds the estimated benefits which could be realized. City staff will continue to monitor internal controls and implement necessary changes.

City of Fergus Falls Required Communication

We have audited the basic financial statements of the governmental activities, business-type activities, the 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, 2024. 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 taken 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 Fergus Falls 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:

- Management Override of Internal Control - This is considered a risk in substantially all engagements as management may be incentivized to produce better results. Management override of control through the journal entry process was identified as a risk.
- Revenue Recognition - This is considered a fraud risk on substantially all engagements as it is generally the largest line item impacting a city's operating results. Improper revenue recognition specifically related to charges for services in the Enterprise Funds, property taxes, and special assessments was identified as a risk.
- If duties cannot be appropriately segregated within the accounting and finance department, there is a risk of unauthorized payroll disbursements being made. Improper payouts of unused sick and vacation time was identified as a risk.
- Capital Assets Valuation - Capital Assets and Related Depreciation - These are material to the financial statements and involve significant estimates.

City of Fergus Falls Required Communication

Significant Risks Identified (Continued)

- Lease Valuation - Lease Receivable and Related Deferred Inflows of Resources - These are material to the financial statements and involve significant estimates.
- Landfill Closure and Post-Closure Care Costs Valuation - Closure and Post-Closure Costs Liability - This is material to the financial statements and involves significant estimates.
- 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.
- 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.

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 2024. 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 and Related Disclosures

Accounting estimates and related disclosures 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:

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

Lease Receivable and Related Deferred Inflows of Resources - These balances are based on estimates and judgments determined by the City related to the discount rate, lease term, and lease payments.

Landfill Closure and Post Closure Care Costs - The City is required to accrue a liability for costs of closing landfills and maintaining these sites after final closing. This liability is an estimate of the costs that will be required.

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.

**City of Fergus Falls
Required Communication**

Qualitative Aspects of the City's Significant Accounting Practices (Continued)

Significant Accounting Estimates and Related Disclosures (Continued)

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 in determining 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.

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.

The following bullet points summarize the uncorrected financial statement misstatements whose effects in the current and prior periods, as determined by management, are immaterial, both individually and in the aggregate, to the financial statements taken as a whole and each applicable opinion unit. Uncorrected misstatements or matters underlying those uncorrected misstatements could potentially cause future-period financial statements to be materially misstated, even though the uncorrected misstatements are immaterial to the financial statements currently under audit.

- A lease asset and lease liability were not recorded on the Statement of Net Position for governmental activities.
- A lease receivable and deferred inflow of resources were not recorded on the Balance Sheet for the General Fund.

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.

City of Fergus Falls Required Communication

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.

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.

**City of Fergus Falls
Required Communication**

Other Information Included in Annual Reports (Continued)

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 Fergus Falls Financial Analysis

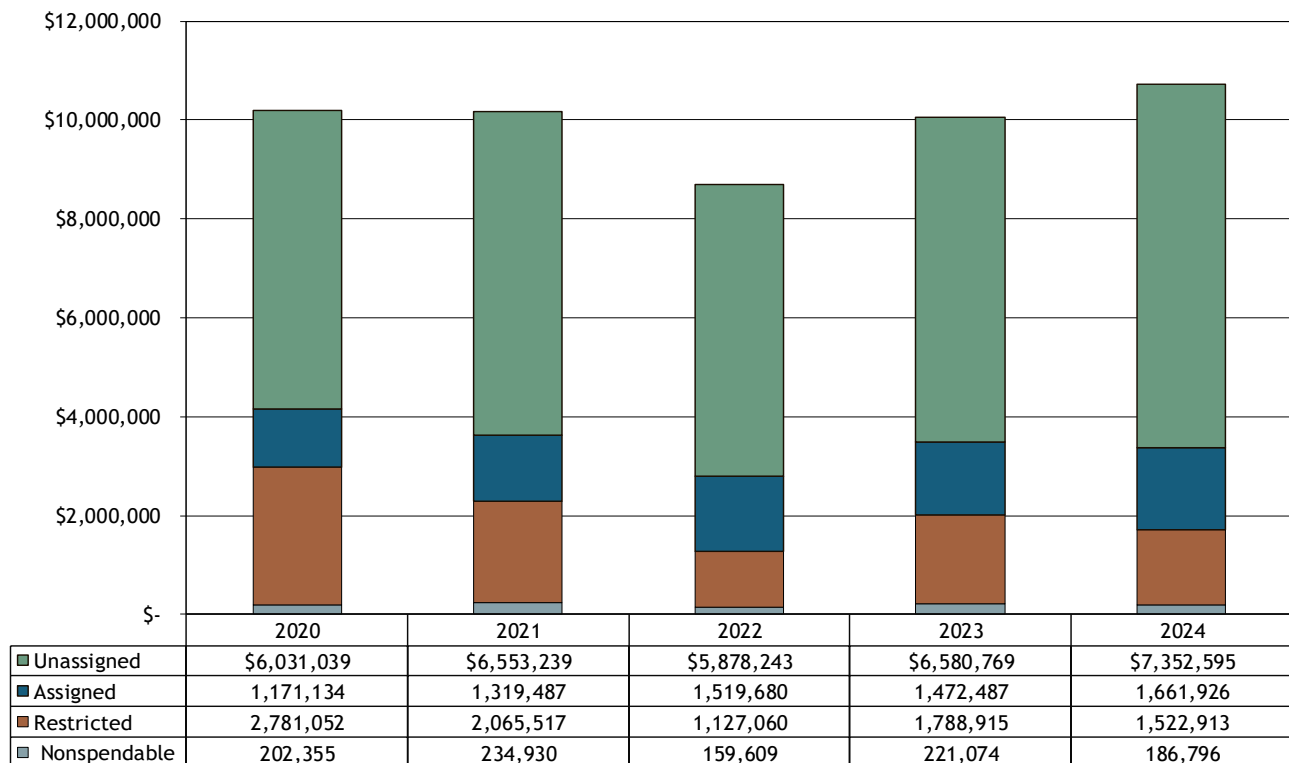
The following pages provide graphic representation of select data pertaining to the financial position and operations of the City for the past five years. Our analysis of each graph is presented to provide a basis for discussion of past performance and how implementing certain changes may enhance future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

General Fund Balance

During the year-ended December 31, 2024, the General Fund balance increased \$660,985 to \$10,724,230 from the December 31, 2023 ending General Fund balance of \$10,063,245.

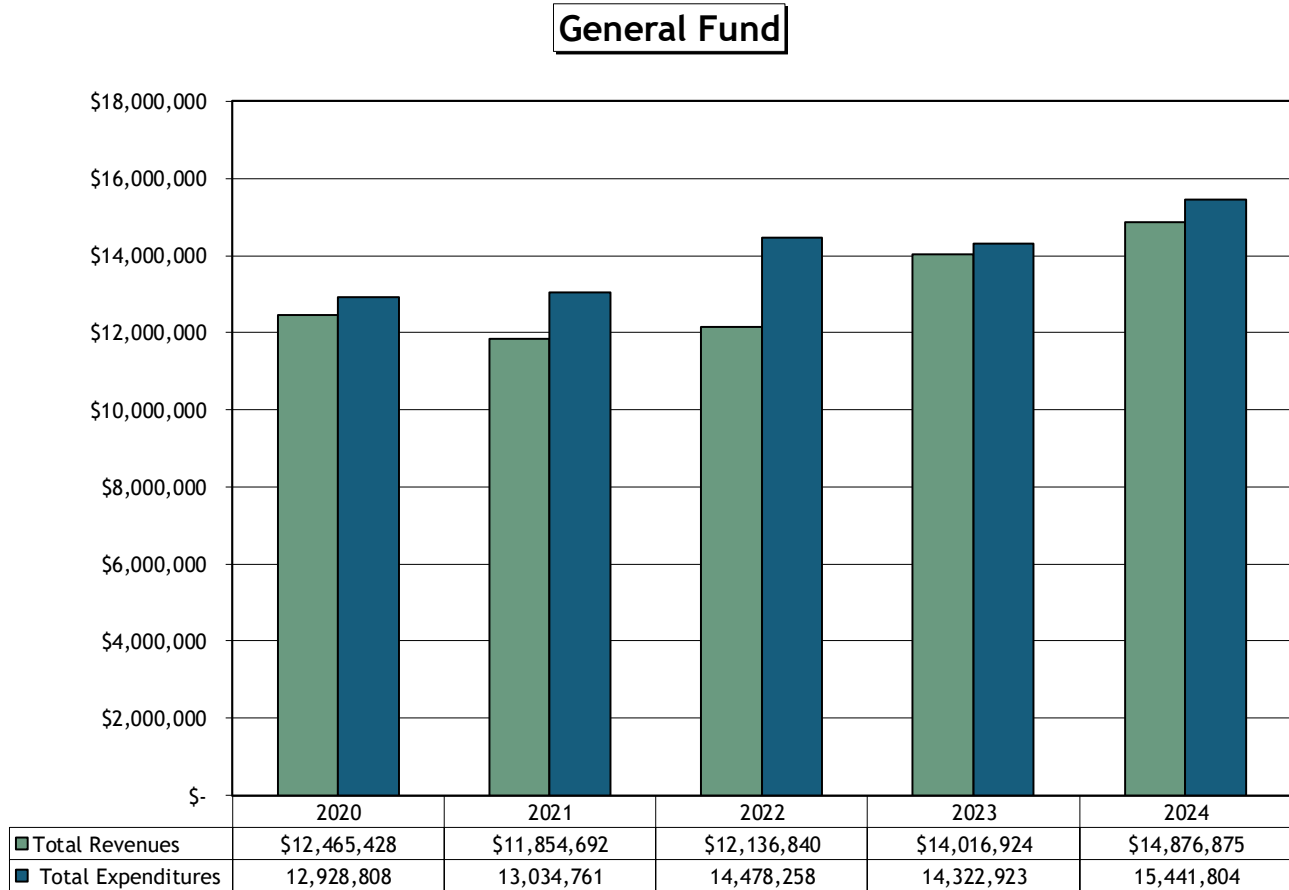
The City's policy is to maintain an unassigned fund balance in the General Fund in the range of 35% to 40% of the subsequent year's working capital budgeted expenditures. Based on that policy, the unassigned fund balance of \$7,352,595 represents approximately 47.19% of the subsequent year's working capital budgeted expenditures. Unassigned fund balance, which is the remaining fund balance not included in nonspendable, restricted, or assigned, increased primarily due to investment earnings exceeding the budgeted amount by approximately \$203,000 as well as the City's experienced staff transitions and retirements resulting in positions remaining vacant during 2024.

General Fund Balance



City of Fergus Falls Financial Analysis

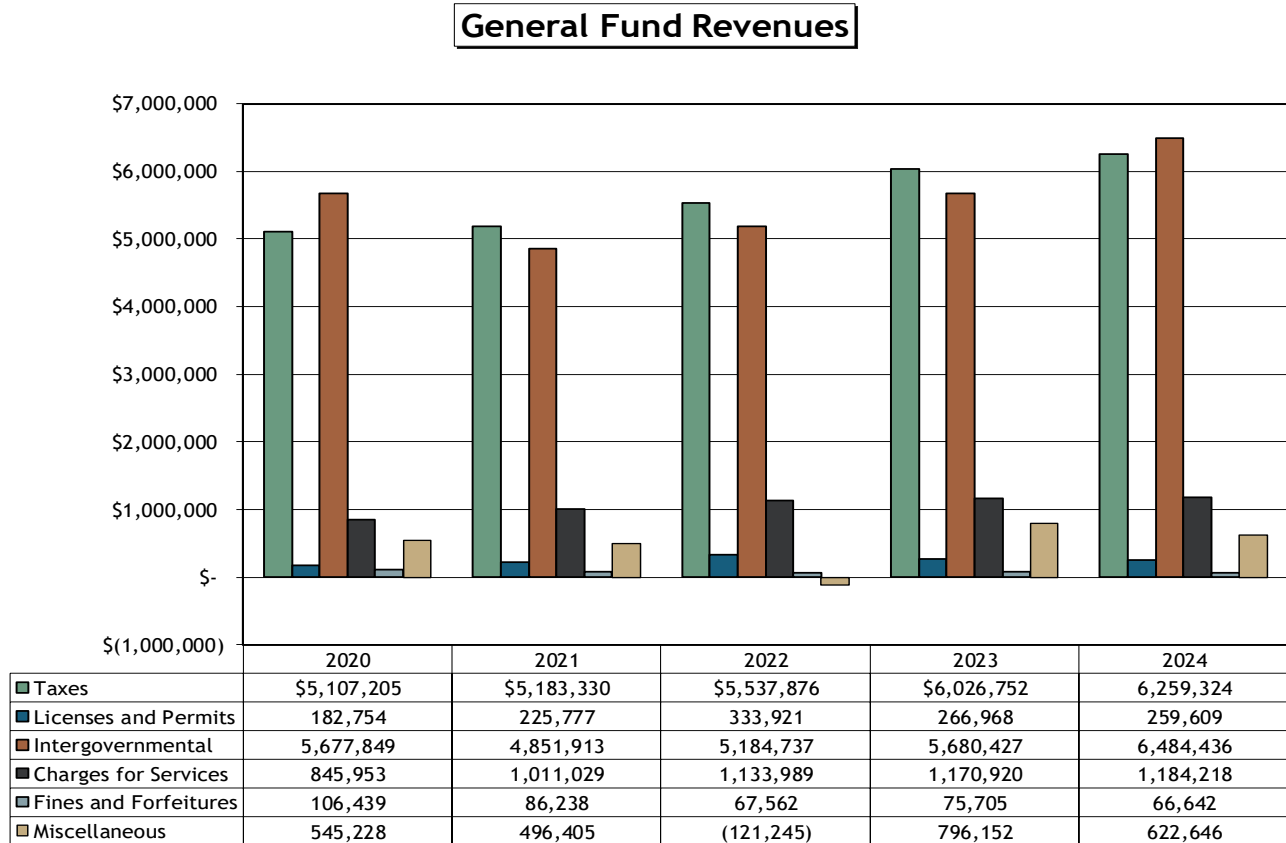
General Fund



General Fund revenues increased from 2023 by \$859,951, or 6.1%. Meanwhile, expenditures increased \$1,118,881, or 7.8%. As a result, expenditures exceeded revenues by \$564,929. The City also transferred amounts between funds. These amounts reported as other financing sources and uses, combined with revenue and expenditure activity, resulted in an increase in General Fund balance of \$660,985, as discussed earlier. Further detailed explanations regarding variances will follow in subsequent charts.

City of Fergus Falls Financial Analysis

General Fund Revenues

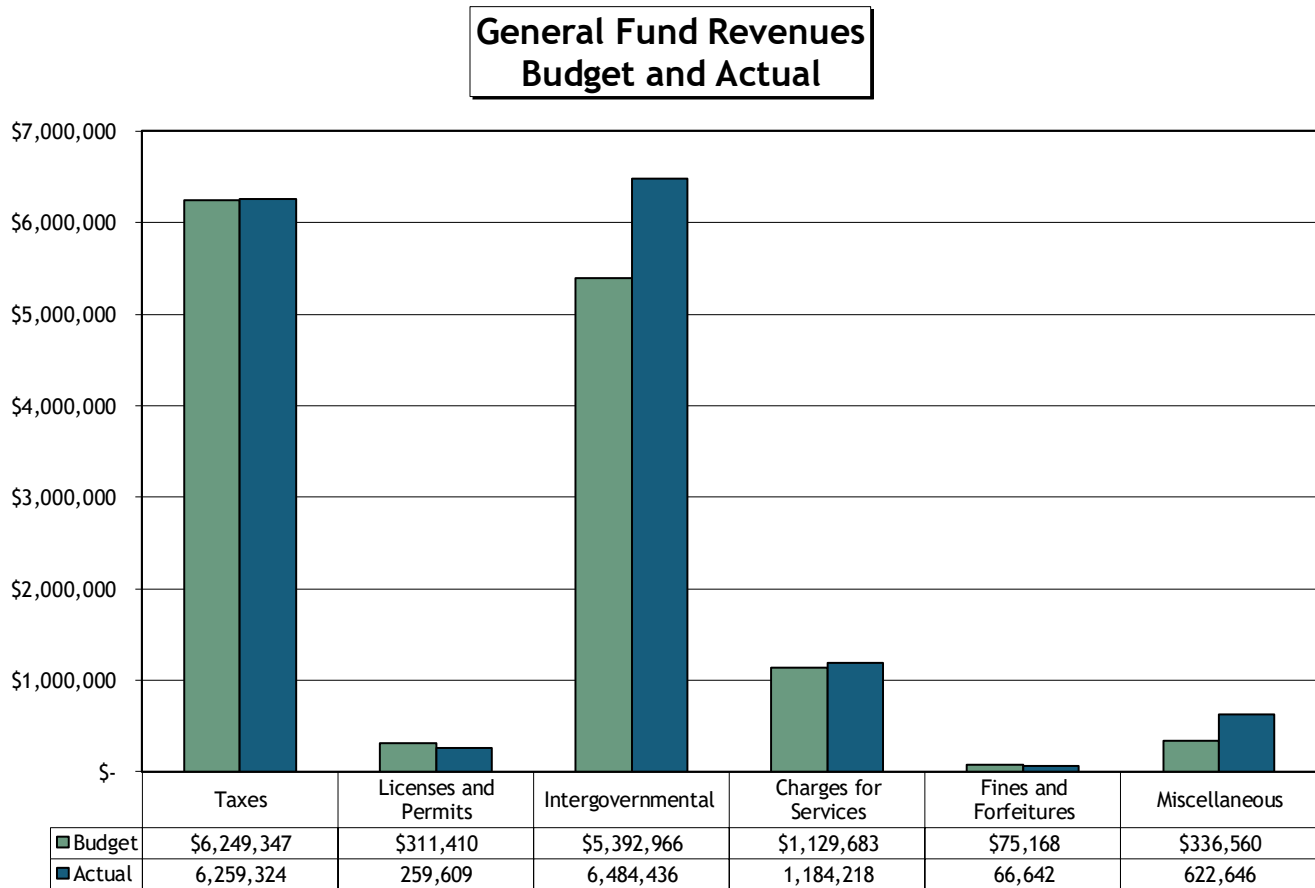


As noted earlier, General Fund total revenues increased in 2024 by approximately 6.1%. The most significant increase in revenues was intergovernmental revenues, which increased by \$804,009, or 14.2%, largely due to the City spending and recognizing as revenue federal American Rescue Plan Act (ARPA) funds that were received in previous years. Taxes revenue increased \$232,572, or 3.9%, primarily due to an increase in the General Fund levy. Miscellaneous revenues decreased \$173,506 primarily due to leveling of marketing conditions, while an unrealized gain on investments was experienced in 2023. All other categories were consistent with prior year amounts.

City of Fergus Falls Financial Analysis

General Fund Revenues (Continued)

The following graph shows the actual General Fund revenues and the corresponding budgeted amounts.



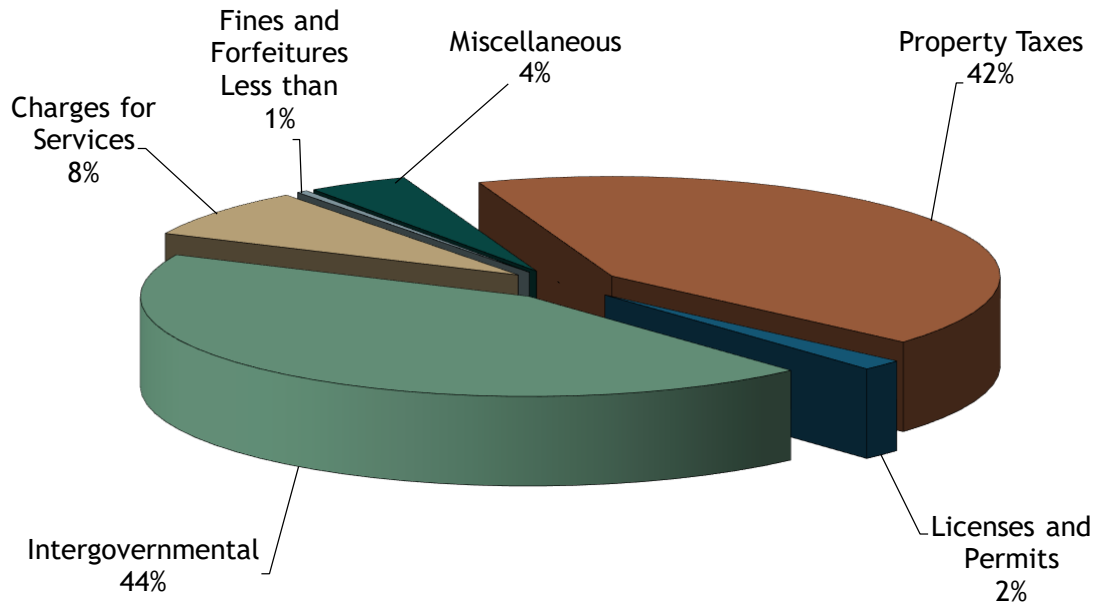
In total, actual revenues exceeded the budgeted amount by \$1,381,741, or 10.2%. The largest variance was in intergovernmental revenues, which were \$1,091,470 over budget. As mentioned earlier, the City spent and recognized as revenue funds from ARPA in the amount of \$722,850, which was not included within the 2024 budget. In addition, the City received \$238,339 of unbudgeted State revenues restricted for street maintenance projects, \$23,511 of additional State Police Aid, \$14,468 of additional State Fire Aid, and \$43,000 of Peace Officer Benefit Aid, all of which were not included in the 2024 budget. Miscellaneous revenues were \$286,086 over budget due to budgeting conservatively for investment income. All other categories were similar to the budgeted amounts.

The charts on the following page illustrate the sources of General Fund revenues by percentage of total revenue for 2024 and 2023. Property taxes and intergovernmental revenues make up the largest portions of revenue. Property taxes were 42% and 43% of revenue in 2024 and 2023, respectively, while intergovernmental revenues were 44% and 40% of revenue in 2024 and 2023, respectively.

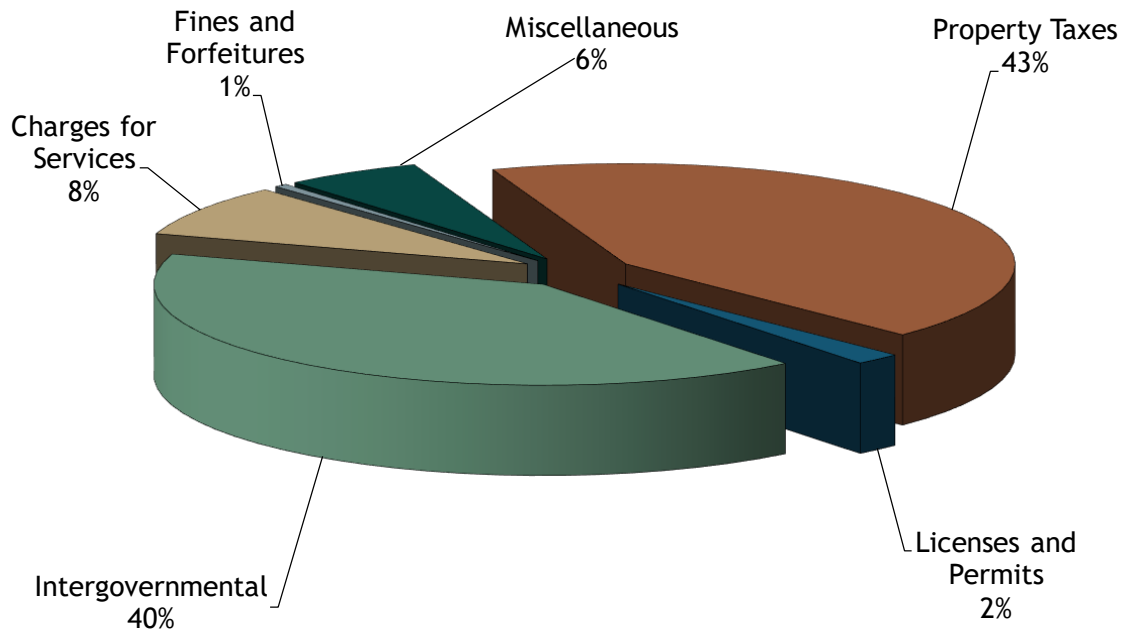
City of Fergus Falls Financial Analysis

General Fund Revenues (Continued)

General Fund Revenues 2024



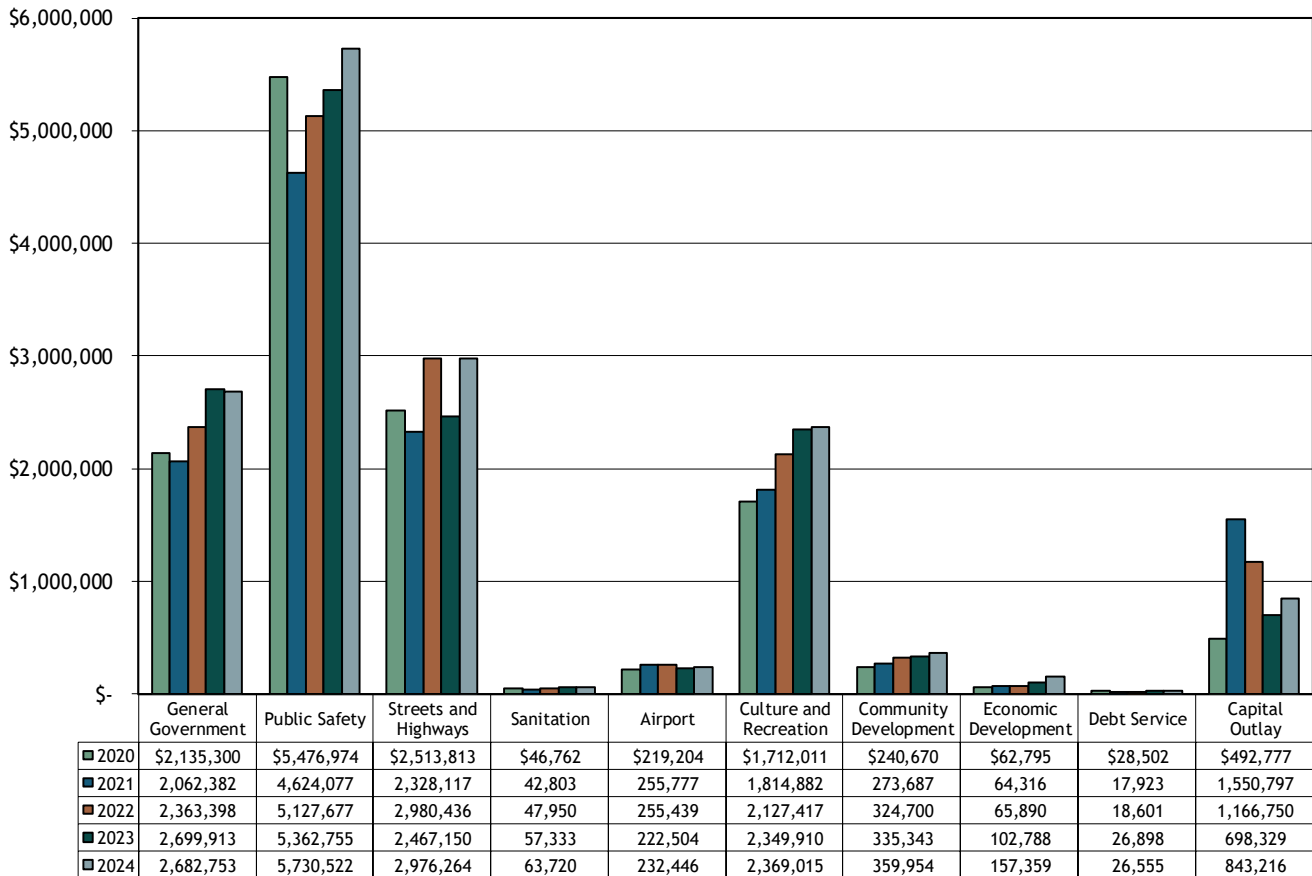
General Fund Revenues 2023



City of Fergus Falls Financial Analysis

General Fund Expenditures

General Fund Expenditures

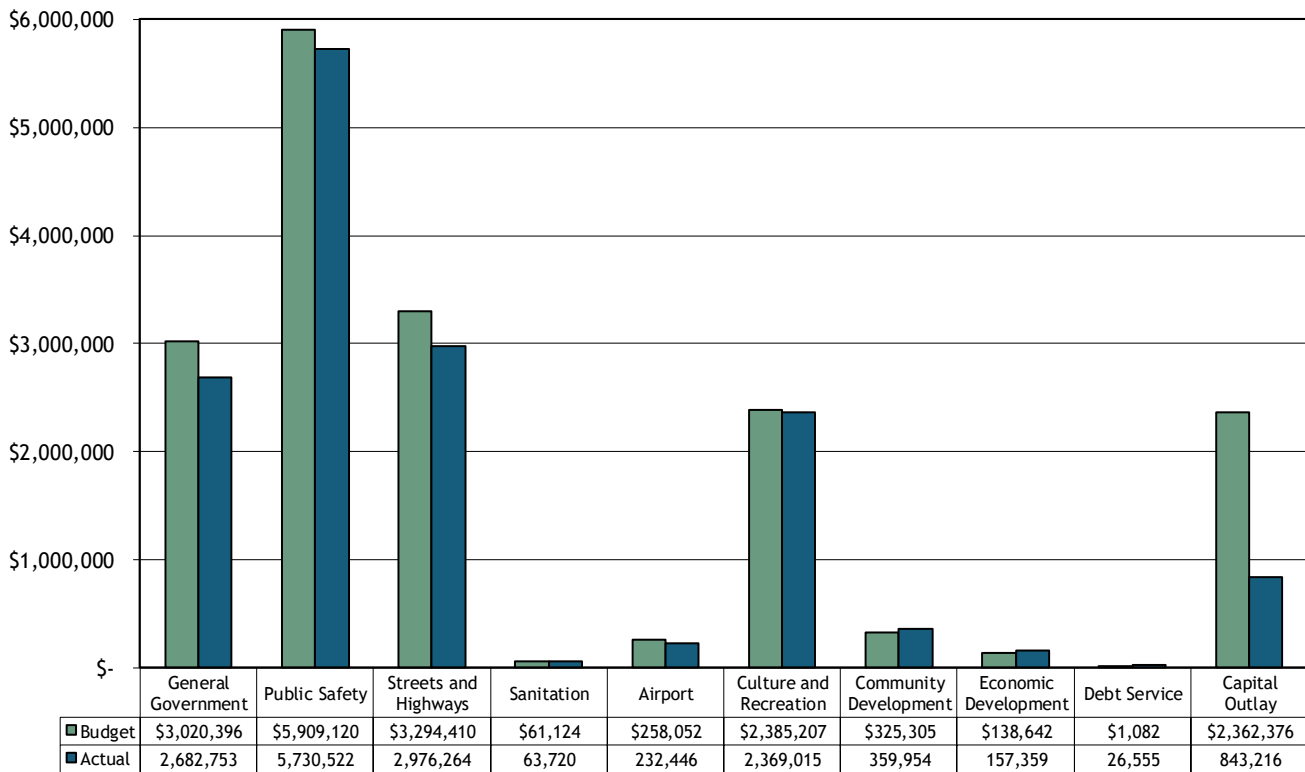


As discussed earlier, total expenditures increased 7.8%. Public safety expenditures increased \$367,767 primarily due to increases in wages and benefits including cost of living increases and expanding the ranking structure. Streets and highways expenditures increased \$509,114 primarily due to the City completing two years' worth of sealcoating in 2024 as none was completed in 2023. Capital outlay expenditures increased \$144,887 primarily due to the fire department purchasing three vehicles and various equipment. All other categories were consistent with prior year amounts.

City of Fergus Falls Financial Analysis

General Fund Expenditures (Continued)

General Fund Expenditures Budget and Actual



In total, General Fund expenditures were \$2,313,910 or 13.0%, under budget.

The most significant variance occurred in capital outlay expenditures, which were \$1,519,160 under budget. The City is anticipating purchasing equipment and completing improvements in future years. The City's budget practices allow for carryover of unspent capital outlay budgets for future capital purchases. This practice reduces the need for debt issuance for significant capital expenditures. Funds carried over to subsequent years are included in General Fund assigned fund balances.

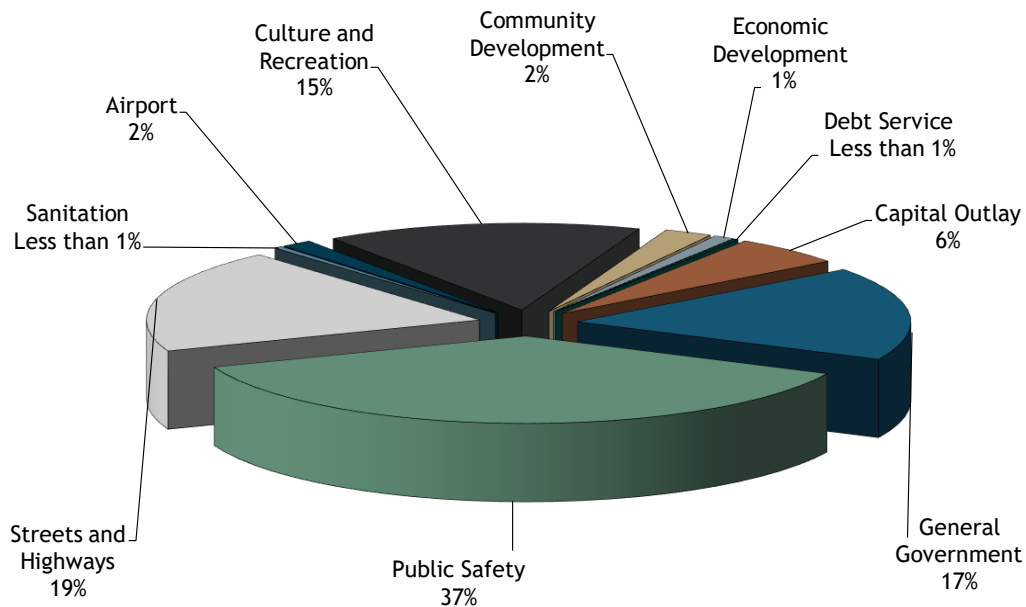
General government expenditures were \$337,643 under budget due to budgeting for payments of benefits owed to employees upon retirement that went unused. The City foresees using these unspent funds in 2025. In addition, the City decided not to fill an open IT analyst position. Public safety expenditures were \$178,598 under budget due to the delays in filling police officer positions in 2024. Street and highways expenditures were \$318,146 under budget due to less snowfall during 2024 resulting in less snow and ice removal costs. All other categories were similar to the budgeted amounts.

City of Fergus Falls Financial Analysis

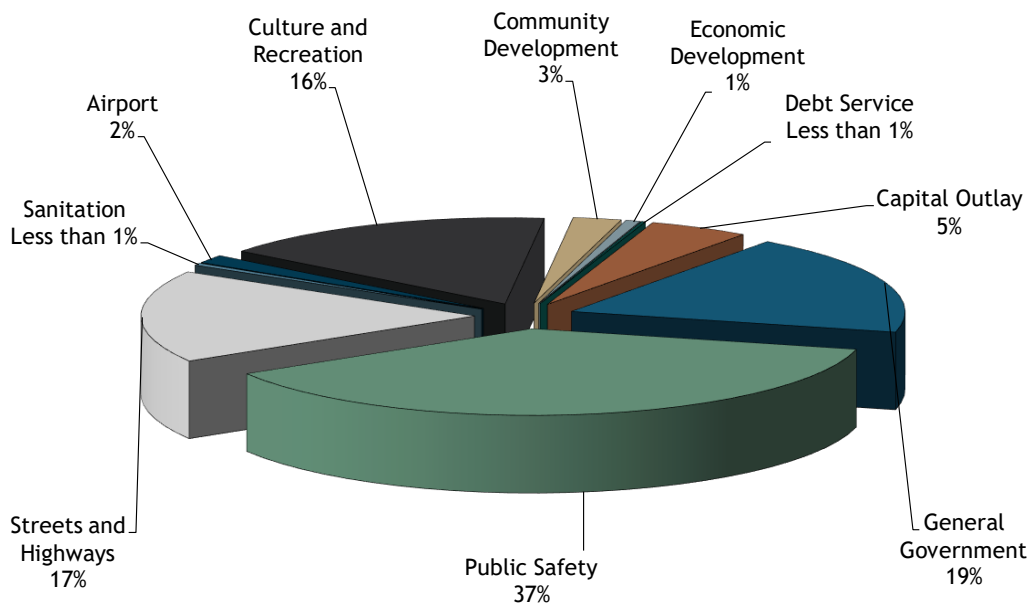
General Fund Expenditures (Continued)

The charts below illustrate the allocation of General Fund expenditures by program. The allocation of total expenditures by program has been stable over the last two years, which is an indication of sound budgeting and planning practices, which allow the City to avoid major fluctuations or swings in spending levels between programs from 2023 to 2024.

General Fund Expenditures 2024



General Fund Expenditures 2023

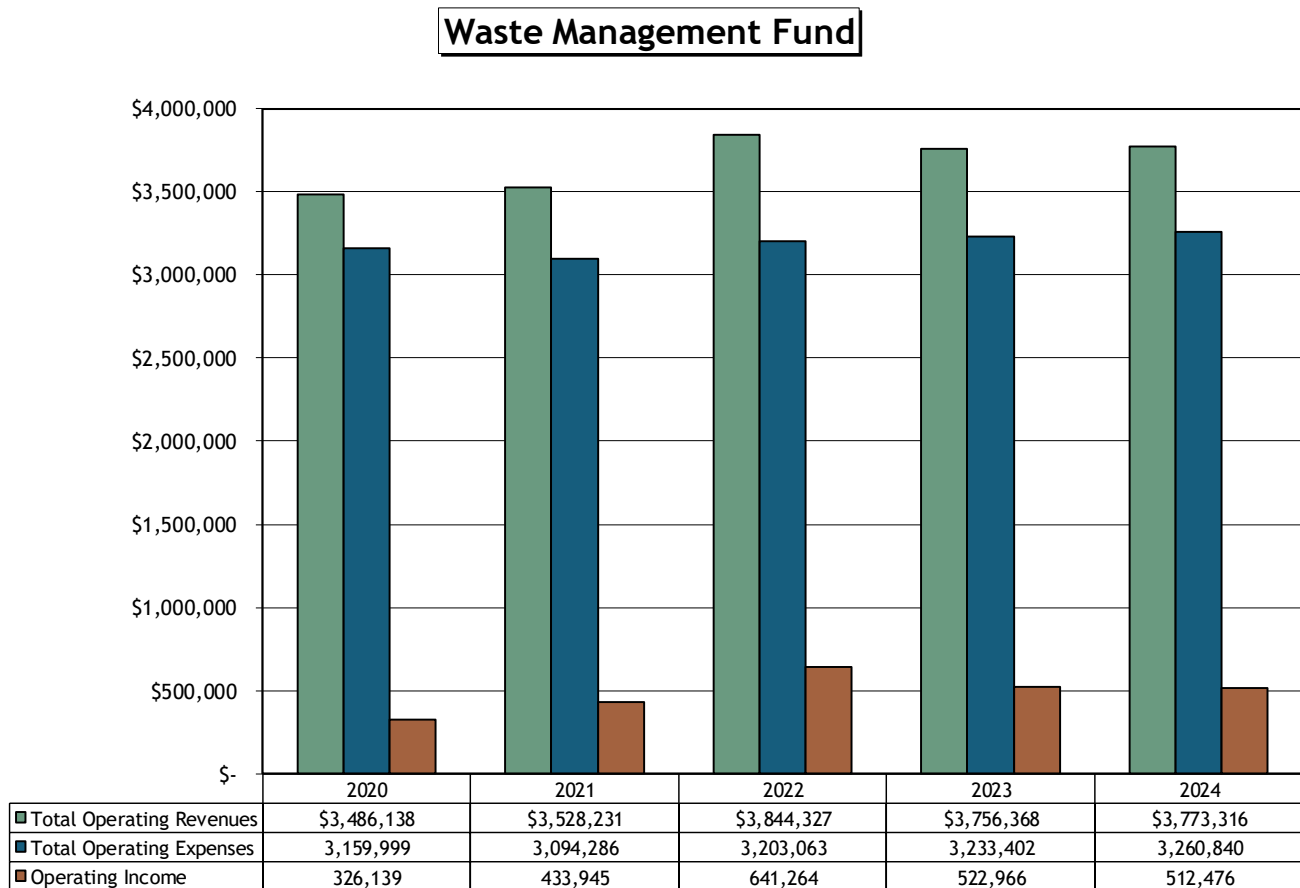


City of Fergus Falls Financial Analysis

Enterprise Funds

The graphs below and on the following pages illustrate the current operations of the Waste Management, Sewage Disposal, Water Department, Storm Water, and Municipal Liquor Funds. Each of these funds reported operating income in 2024, which indicates the funds have established rates sufficient to help cover future replacement of capital assets. We recommend the City continue to monitor operations of each enterprise fund to ensure continued positive operating results.

Waste Management Fund

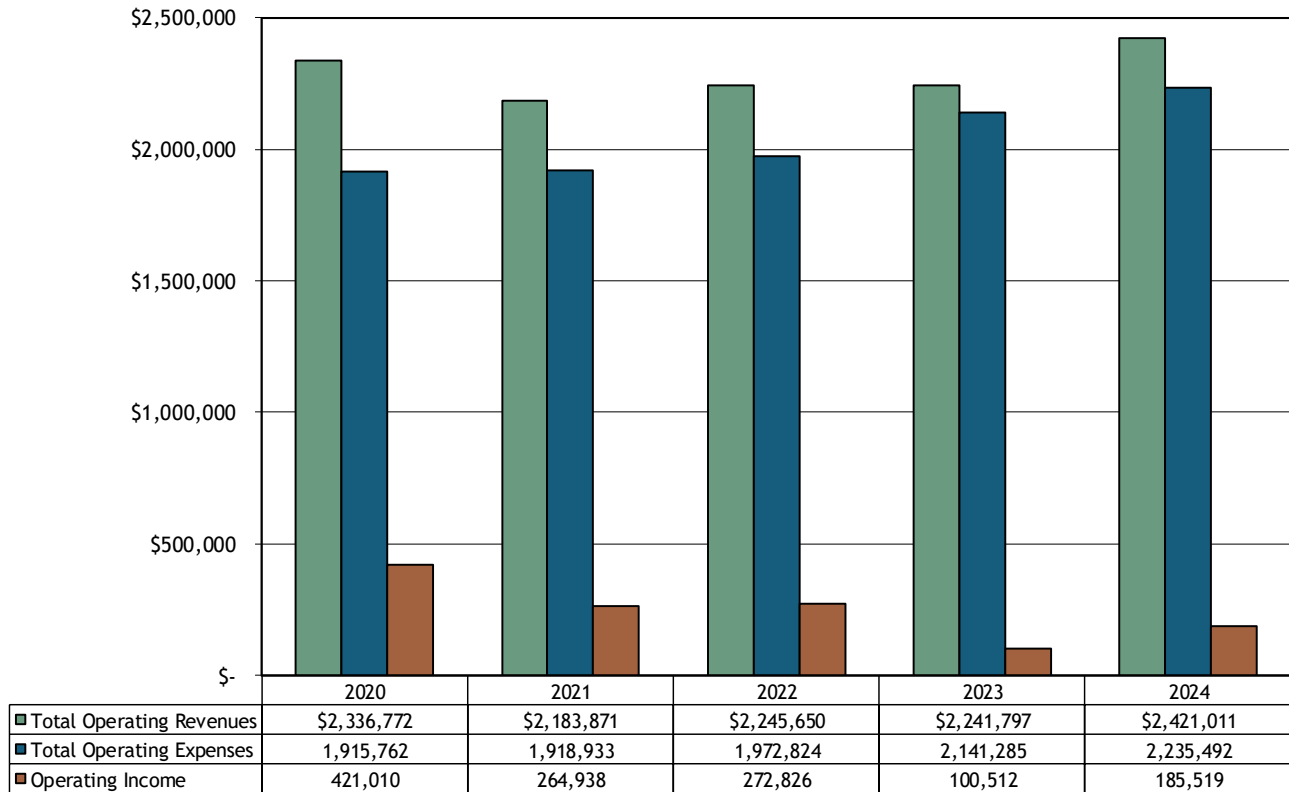


The Waste Management Fund experienced operating income of \$512,476 in 2024. The Fund experienced an operating income in each of the five years presented. Operating revenues and expenses were consistent with the prior year.

City of Fergus Falls Financial Analysis

Sewage Disposal Fund

Sewage Disposal Fund

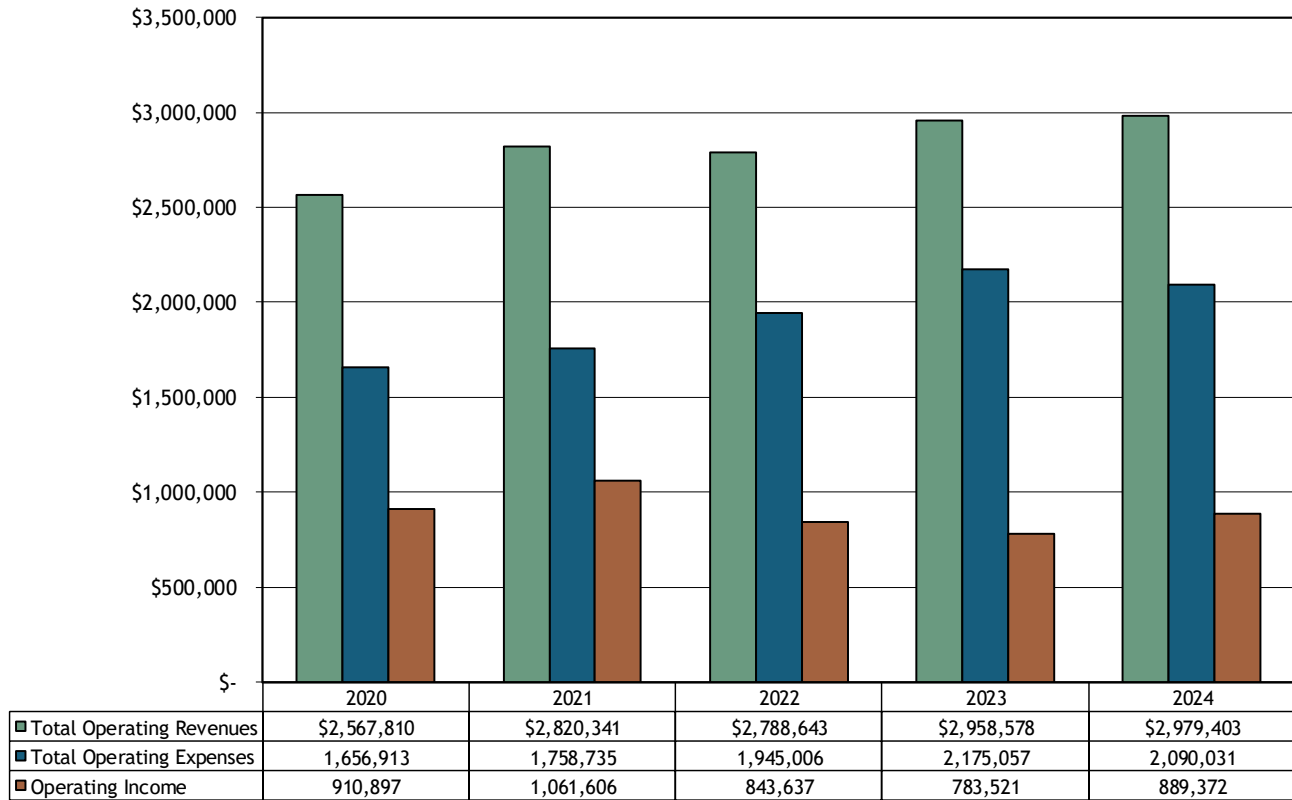


The Sewage Disposal Fund reported operating income of \$185,519 in 2024. Operating revenues increased \$179,214, or 8.0%, while operating expenses increased \$94,207, or 4.4%. Operating revenues increased due to an 8% rate increase that went into effect in April. Operating expenses increased across wages, benefits, and repairs and maintenance costs.

City of Fergus Falls Financial Analysis

Water Department Fund

Water Department Fund

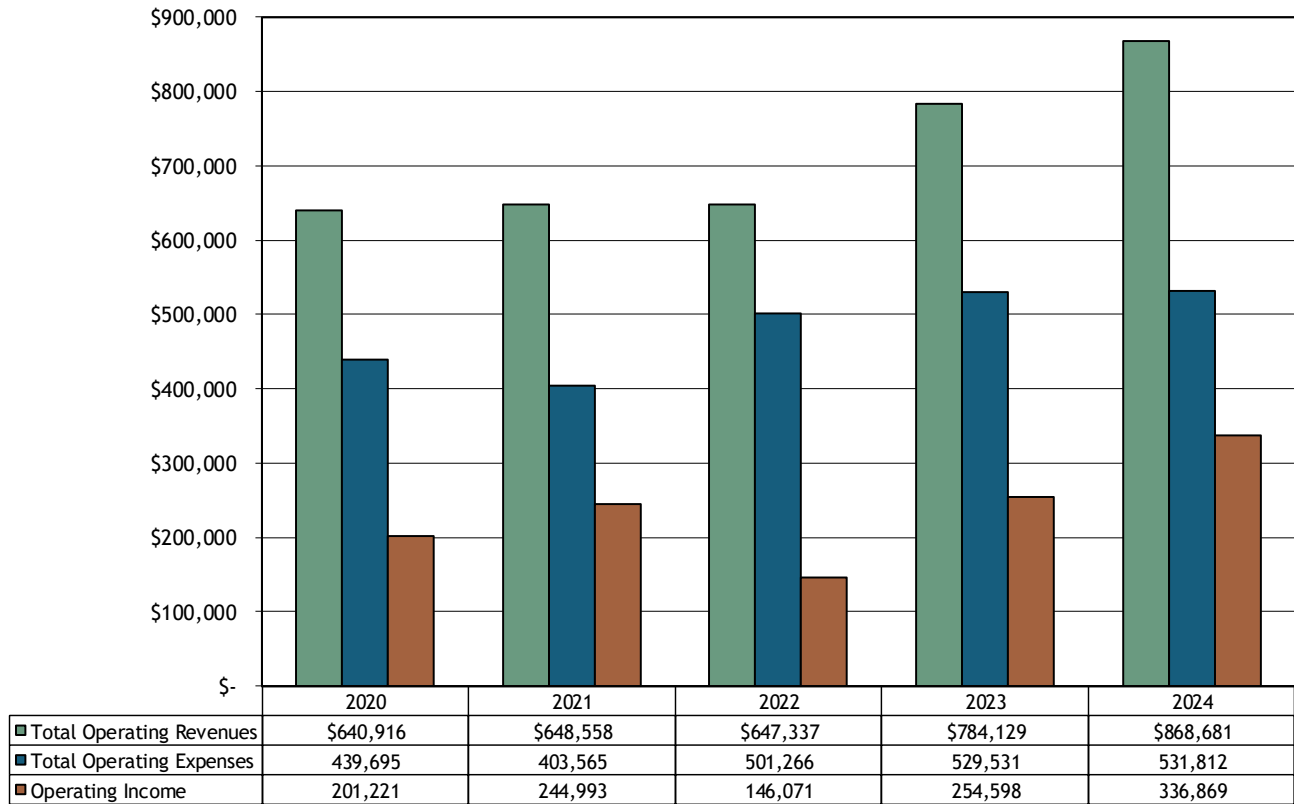


In 2024, operating revenues for the Water Department Fund increased \$20,825, or 0.7%. Operating revenues remained consistent with the prior year despite a 10% rate increase in April due to less watering during the summer months. Operating expenses decreased \$85,026, or 3.9%, across utilities and professional service costs.

City of Fergus Falls Financial Analysis

Storm Water Fund

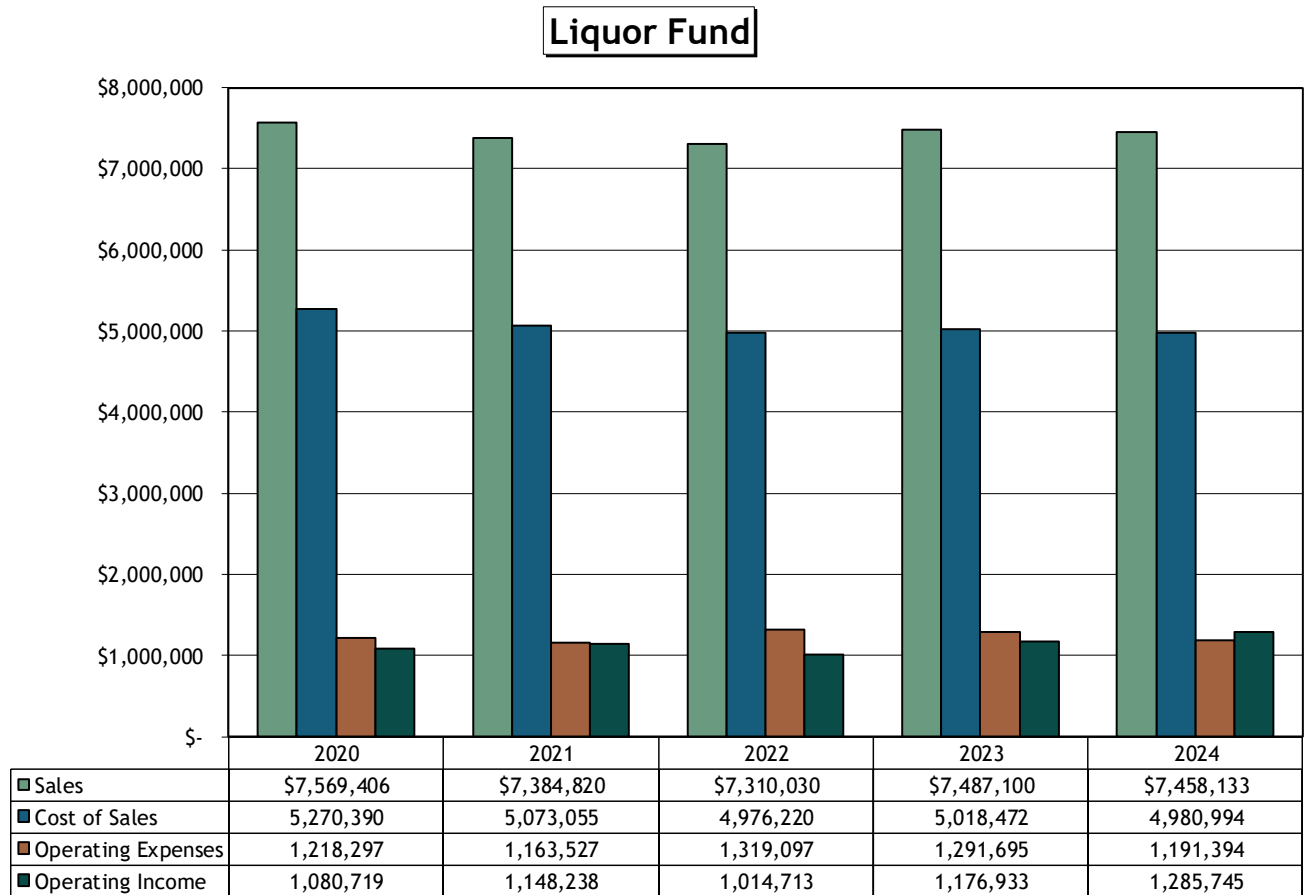
Storm Water Fund



Operating revenues in the Storm Water Fund increased \$84,552, or 10.8%, primarily due to a 14.3% rate increase (\$1.25 per month for residential accounts) that went into effect in April. Operating expenses increased \$2,281, or 0.4%.

City of Fergus Falls Financial Analysis

Liquor Fund



Liquor store sales decreased \$28,967, or 0.4%, while costs of sales decreased \$37,478, or 0.7%, in 2024. Because the City's cost of sales decreased at a higher rate than sales, the gross profit percentage of the Liquor Store Fund increased as illustrated on the following page. Operating expenses decreased \$100,301, or 7.8%, due to a decrease in pension expense related to the PERA imposed net pension liability as well as a decrease in health insurance costs as fewer employees were on the City's plan in 2024. Operating income totaled \$1,285,745 in 2024.

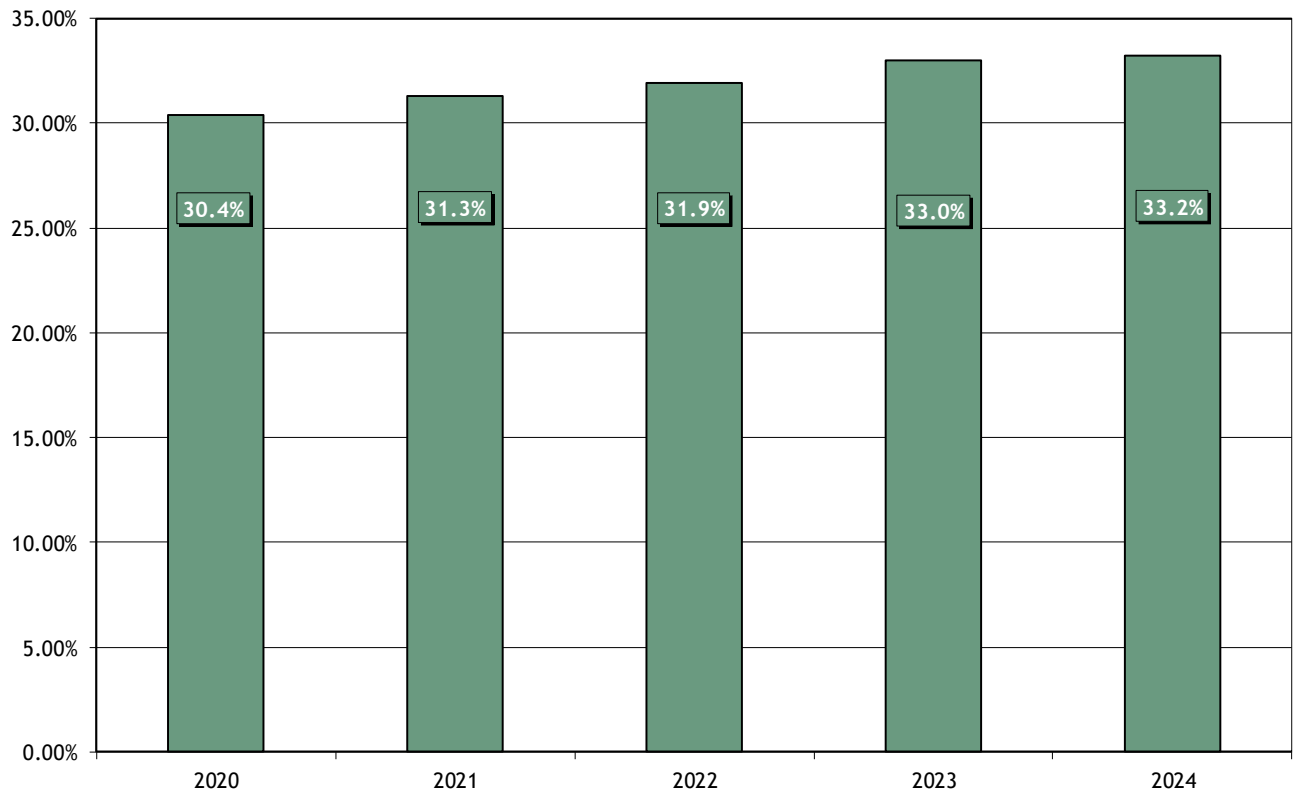
The Liquor Fund transferred \$718,773 to the General Fund to reduce the City's property tax burden.

City of Fergus Falls Financial Analysis

Liquor Fund (Continued)

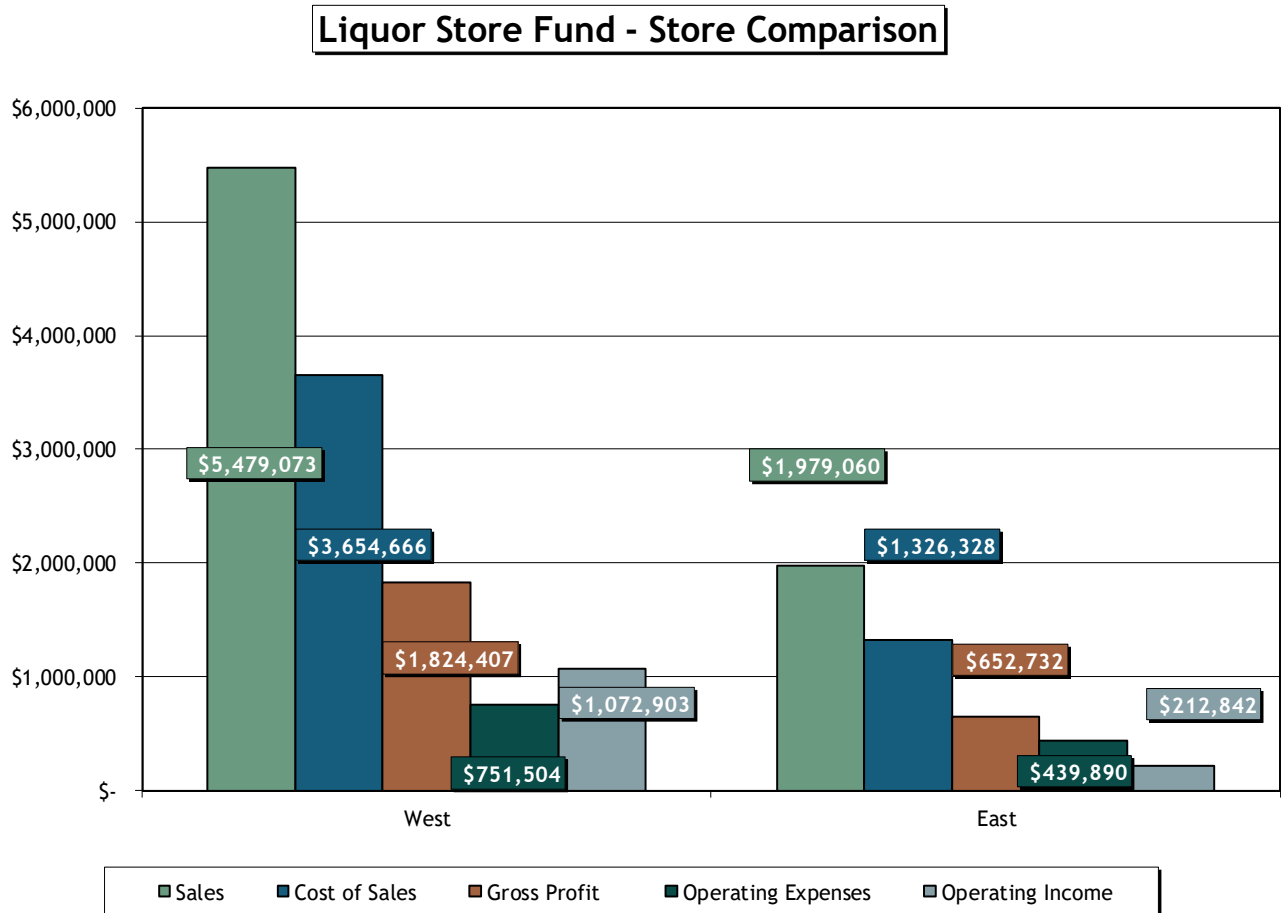
Shown below are charts depicting the overall gross percentage and the activity for both the West Side Liquor Store and the East Side Liquor Store. The West Side Liquor Store experienced operating income of \$1,072,903, compared to the East Side Liquor Store with operating income of \$212,842. Gross profit percentages were calculated for the West and East stores at 33.3% and 33.0%, respectively.

Liquor Store Fund - Gross Profit Percentage



City of Fergus Falls
Financial Analysis

Liquor Fund (Continued)



City of Fergus Falls Financial Analysis

Tax Capacity and Market Value

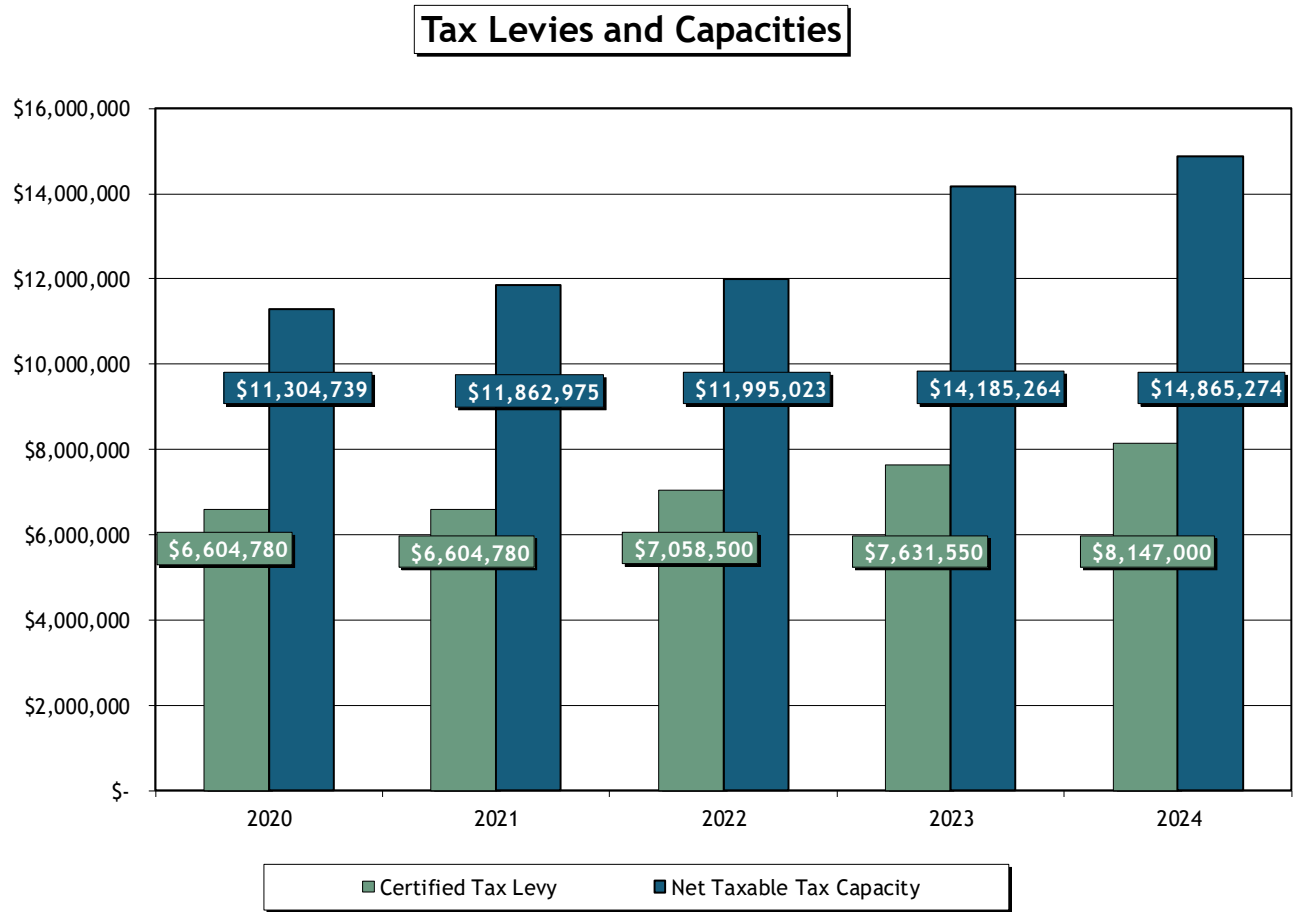
The next two graphs present tax capacity rates, net taxable tax capacity, and tax levy information for the City for the past five years. The City's net taxable tax capacity has increased each year since 2020. The City's levy remained stable from 2020 to 2021, and increased in 2022, 2023, and 2024. The City's tax capacity rate has changed over the last five years due to changes in the tax levy compared to the net taxable tax capacity.

Tax Capacity Rate



City of Fergus Falls
Financial Analysis

Tax Capacity and Market Value (Continued)

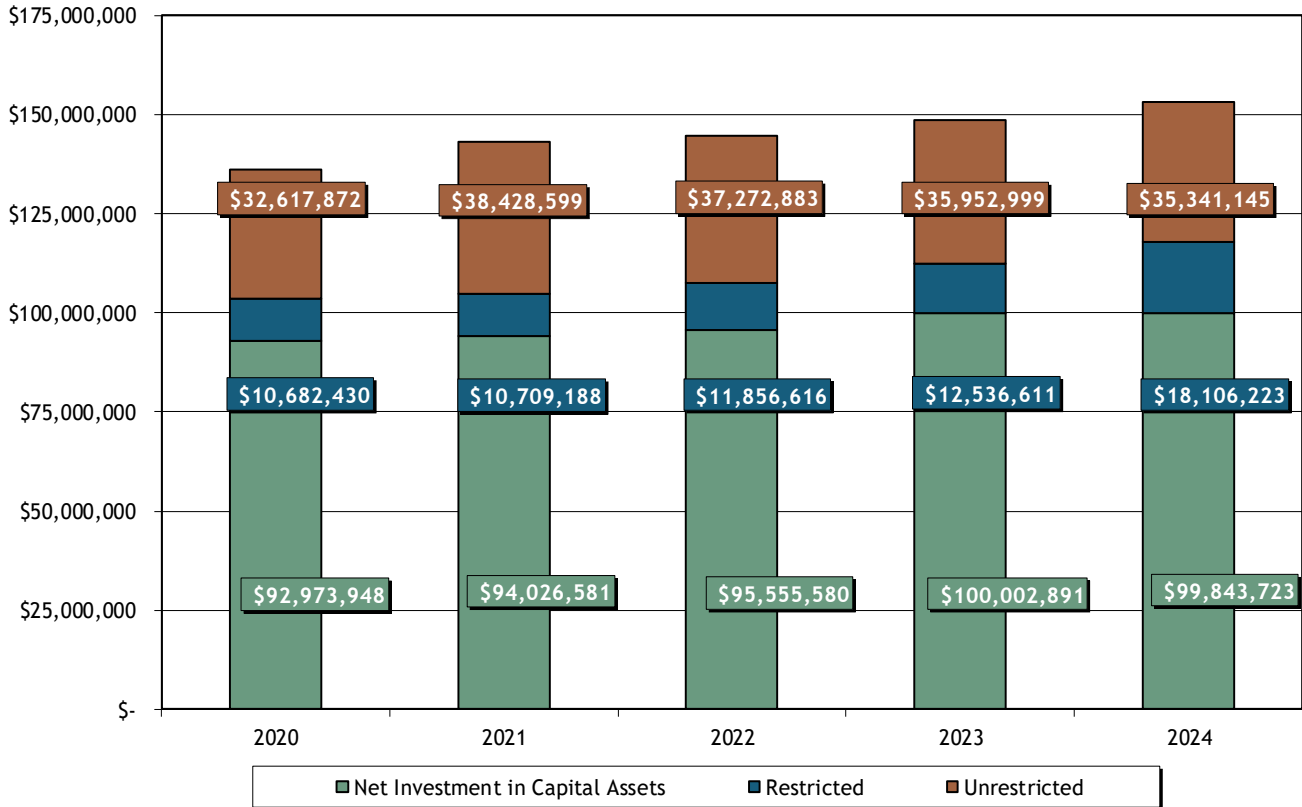


City of Fergus Falls Financial Analysis

Statement of Net Position

The following graph shows the components of total net position found in the Statement of Net Position. Total net position increased \$4,798,590, or 3.2%.

Components of Net Position



Net investment in capital assets, which makes up the largest portion of net position, and unrestricted net position were consistent with the prior year. Restricted net position increased due to an increase in amounts restricted for future debt service payments and unspent bond proceeds for future park improvement projects.

City of Fergus Falls 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:

- **Accounting Standard Update - GASB Statement No. 102 - *Certain Risk Disclosures***
GASB has issued GASB Statement No. 102 relating to risk disclosures. The disclosures will provide users with timely information regarding certain concentrations or constraints and related events that have occurred or have begun to occur that make a government vulnerable to a substantial impact.
- **Accounting Standard Update - GASB Statement No. 103 - *Financial Reporting Model Improvements***
GASB has issued GASB Statement No. 103 relating to changes in financial reporting requirements. The changes provide clarity, enhance the relevance of information, provide more useful information for decision-making, and provide for greater comparability amongst government entities.
- **Accounting Standard Update - GASB Statement No. 104 - *Disclosure of Certain Capital Assets***
GASB has issued GASB Statement No. 104 relating to capital asset disclosures. The disclosures required by this Statement provide users of the financial statements with essential information about certain types of capital assets.

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 this issue with you further and its applicability to your City.

City of Fergus Falls Emerging Issues

Accounting Standard Update - GASB Statement No. 102 - *Certain Risk Disclosures*

The objective of this Statement is to provide users of government financial statements with information about risks related to a government's vulnerabilities due to certain concentrations or constraints that is essential to their analyses for making decisions or assessing accountability.

This Statement provides definitions for concentration and constraint. A concentration is a lack of diversity related to an aspect of a significant inflow of resources or outflow of resources. A constraint is a limitation imposed on a government by an external party or by formal action of the government's highest level of decision-making authority.

This Statement requires a government to assess whether a concentration or constraint could present a risk of financial difficulty. The City will need to make a disclosure in the notes to the financial statements if all three of the following criteria are true:

- The City knows about the concentration or constraint prior to financial statement issuance.
- The concentration or constraint makes the City vulnerable to risk of a substantial impact.
- An event or events associated with the concentration or constraint that could cause a substantial impact have either (1) happened; (2) started to happen; or (3) are more likely than not to start happening within 12 months of the financial statements being issued.

If a government determines the above criteria for disclosure have been met, it should disclose information in notes to financial statements in sufficient detail to enable users of financial statements to understand the nature of the circumstances disclosed and the government's vulnerability to the risk of a substantial impact. Disclosures are required for the government as a whole as well as any opinion unit in the financial statements that includes outstanding revenue debt. Disclosures can be combined to avoid unnecessary duplication (e.g., a subsequent event footnote).

GASB Statement No. 102 is effective for fiscal years beginning after June 15, 2024. Earlier application is encouraged.

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

City of Fergus Falls Emerging Issues

Accounting Standard Update - GASB Statement No. 103 - *Financial Reporting Model Improvements*

The objective of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. This Statement also addresses certain application issues.

This Statement addresses 5 areas of the financial statements (1) Management's Discussion and Analysis (MD&A), (2) Unusual or Infrequent Items, (3) Presentation of the Proprietary Fund Statement of Revenues, Expenses, and Changes in Fund Net Position, (4) Major Component Unit Information, and (5) Budgetary Comparison Information.

This Statement continues the requirement that the MD&A precede the basic financial statements as part of the Required Supplementary Information (RSI). This Statement requires that the information presented in MD&A be limited to the related topics discussed in five sections: (1) Overview of the Financial Statements, (2) Financial Summary, (3) Detailed Analyses, (4) Significant Capital Asset and Long-Term Financing Activity, and (5) Currently Known Facts, Decisions, or Conditions. The Statement stresses that detailed analyses should explain why balances and results of operations changed, rather than stating amounts and "boilerplate" discussions.

This Statement describes unusual or infrequent items as transactions and other events that are either unusual in nature or infrequent in occurrence. Furthermore, governments are required to display the inflows and outflows related to each unusual or infrequent item separately as the last presented flow(s) of resources prior to the net change in resource flows in the government-wide, governmental fund, and proprietary fund statements of resource flows.

This Statement requires that the proprietary fund statement of revenues, expenses, and changes in fund net position continue to distinguish between operating and nonoperating revenues and expenses. The Statement provides clarification regarding operating and nonoperating revenues and expenses. Also, this Statement requires that a subtotal for operating income (loss) and noncapital subsidies be presented before reporting other nonoperating revenues and expenses.

This Statement requires governments to present each major component unit separately in the reporting entity's statement of net position and statement of activities if it does not reduce the readability of the statements. If the readability of those statements would be reduced, combining statements of major component units should be presented after the fund financial statements.

This Statement requires governments to present budgetary comparison information using a single method of communication - RSI. Governments also are required to present (1) variances between original and final budget amounts and (2) variances between final budget and actual amounts. An explanation of significant variances is required to be presented in notes to RSI.

GASB Statement No. 103 is effective for fiscal years beginning after June 15, 2025. Earlier application is encouraged.

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

**City of Fergus Falls
Emerging Issues**

Accounting Standard Update - GASB Statement No. 104 - *Disclosure of Certain Capital Assets*

The objective of this Statement is to provide users of government financial statements with essential information about certain types of capital assets.

This Statement requires certain types of capital assets continue to be disclosed separately in the capital assets note disclosures including presentation of capital assets by major class and separate disclosure of lease assets, subscription assets, and intangible right-to-use assets.

This Statement requires additional disclosures for capital assets held for sale. A capital asset is held for sale if (a) the government has decided to pursue the sale of the capital asset and (b) it is probable that the sale will be finalized within one year of the financial statement date.

Governments should disclose (1) the ending balance of capital assets held for sale, with separate disclosure for historical cost and accumulated depreciation by major class of asset, and (2) the carrying amount of debt for which the capital assets held for sale are pledged as collateral for each major class of asset.

GASB Statement No. 104 is effective for fiscal years beginning after June 15, 2025. Earlier application is encouraged.

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