City of Falcon Heights
Ramsey County, Minnesota

Communications Letter

December 31, 2024

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

Honorable Mayor, Members
of the City Council and Management
Jack Linehan, City Administrator
Roland Olson, Finance Director
City of Falcon Heights
Falcon Heights, Minnesota

In planning and performing our audit of the basic financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Falcon Heights, 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 opinions on 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 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 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 April 29,2025, on such statements.

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

Berganklv, Ltd.

Minneapolis, Minnesota
April 29, 2025

City of Falcon Heights
Significant Deficiency

Lack of Segregation of Accounting Duties
The City continued to evaluate and improve the segregation of accounting duties among City staff during 2024. Because of a limited number of office personnel, some areas of internal control still remain without proper segregation of accounting duties; however, we can report on the following processes. 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.

Revenue Cycle
The four areas of segregation in the revenue cycle include mailroom custody, treasurer custody, accounts receivable, and accounting.

We noted some overlap in the mailroom and treasurer custody, with one employee having job responsibilities in both areas.

We also noted overlapping duties between accounts receivable and accounting, in that the person responsible for accounts receivable also is responsible for bank reconciliations.

Purchasing Cycle
The five areas of segregation in the purchasing cycle include purchasing authorization, receiving authorization, accounts payable, treasurer responsibilities, and accounting.

We noted proper segregation between the responsibility of purchasing goods and services, the individual responsible for preparing the purchase order, and the person responsible for approving the purchase order. However, we noted overlapping duties with the approval of purchase orders, input of invoices, and preparing of disbursements being performed by one individual.

Payroll Cycle
The five areas of segregation in the payroll cycle include human resources authorization, immediate supervisor authorization, payroll recording, paymaster custody, and accounting.

In addition to having responsibilities in payroll recording, paymaster custody, and accounting cycles noted above, the Finance Director has full general ledger access and the ability to write and post journal entries. While we believe this access is necessary to efficiently perform the financial duties required, this access has the ability to override many of the controls and segregation listed above.

Journal Entries
The three areas of segregation in journal entries include an employee to write the journal entry, another to post the entry, and finally another employee to review the entry.

We noted some journal entries were not approved by someone other than the person writing the entry.

We recommend a second review/approval to ensure accuracy.

Lack of Segregation of Accounting Duties (Continued)

Bank Reconciliation Process

The two areas of segregation include an employee to prepare the cash reconciliation and another employee to review the reconciliation; ideally, the individual preparing the reconciliation has limited involvement in the revenue and purchasing cycles.

We noted the Finance Director has primary responsibility for bank reconciliations. These are generally delegated to other staff, however, still completed by the Finance Director to ensure accuracy.

We recommend each reconciliation be reviewed to help ensure accuracy.

City of Falcon Heights
Required Communication

We have audited the basic financial statements of the governmental activities, business-type activities, 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 as a whole.

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.

City of Falcon Heights
Required Communication

Significant Risks Identified
We have identified the following significant risks of material misstatement:

- Improper Revenue Recognition – Revenue recognition is considered a fraud risk on substantially all engagements as it generally has a significant impact on the results of the governments operations. In addition, complexities exit surrounding the calculation and recording of various revenue sources.
- Management Override of Controls – Overall Financial Statements – Management override of internal control is considered a risk in substantially all engagements as management may be incentivized to produce better results.
- Pension Valuation – Net Pension Liability, Deferred Outflows of Resources Related to Pensions, and Deferred Inflows of Resources Related to Pensions are generally material to the financial statements and involve significant estimates.
- Misappropriation of Assets – Misappropriation of assets is considered a risk in substantially all engagements as assets may be misappropriated due to fraud or error.

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:

> 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 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.

City of Falcon Heights
Required Communication

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.

Management did not identify, and we did not notify them of any uncorrected financial statement misstatements.

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.

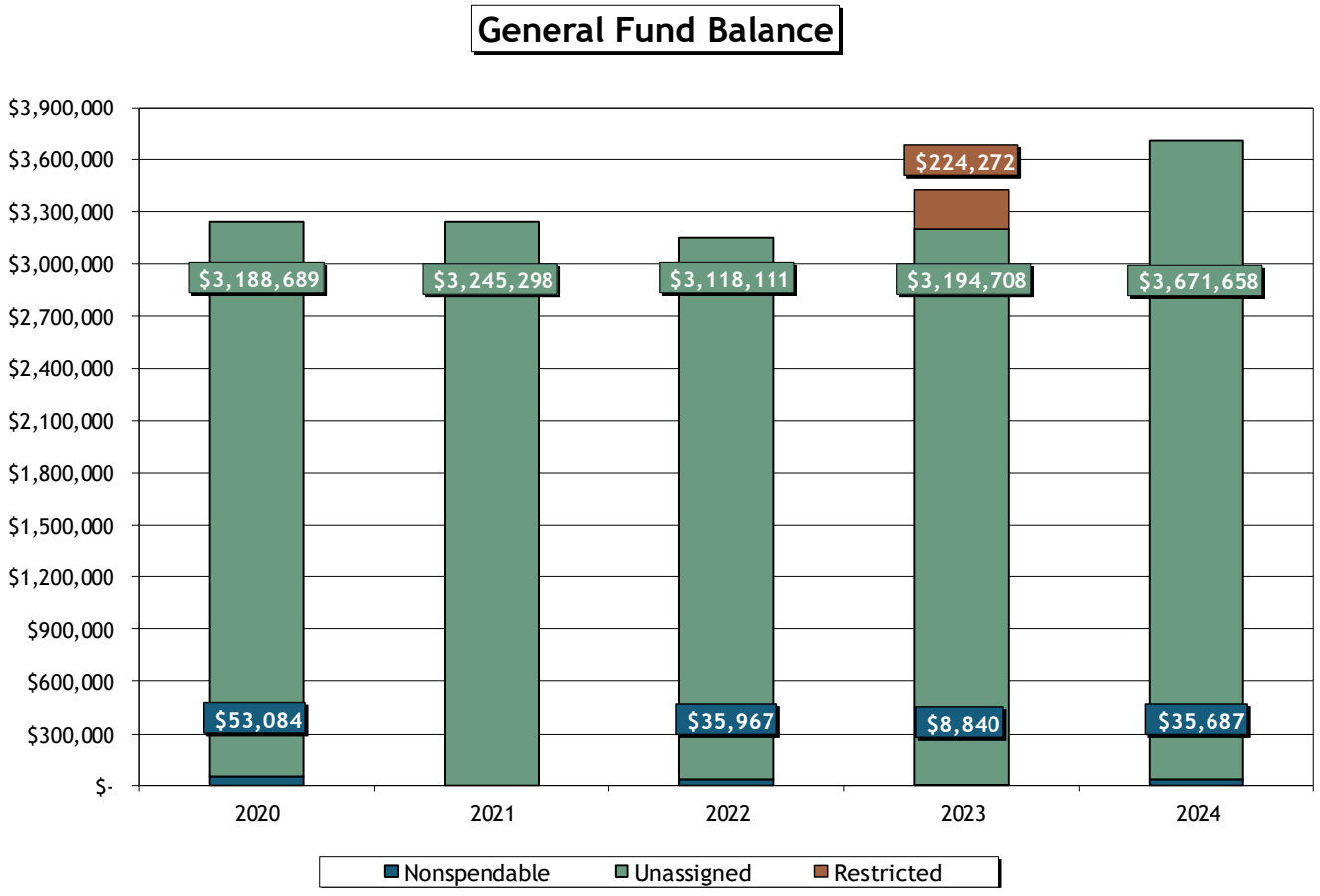
We applied certain limited procedures to the RSI that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic 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.

Other Information Included in Annual Reports (Continued)
With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the basic financial statements or to the basic financial statements themselves.

City of Falcon Heights
Financial Analysis

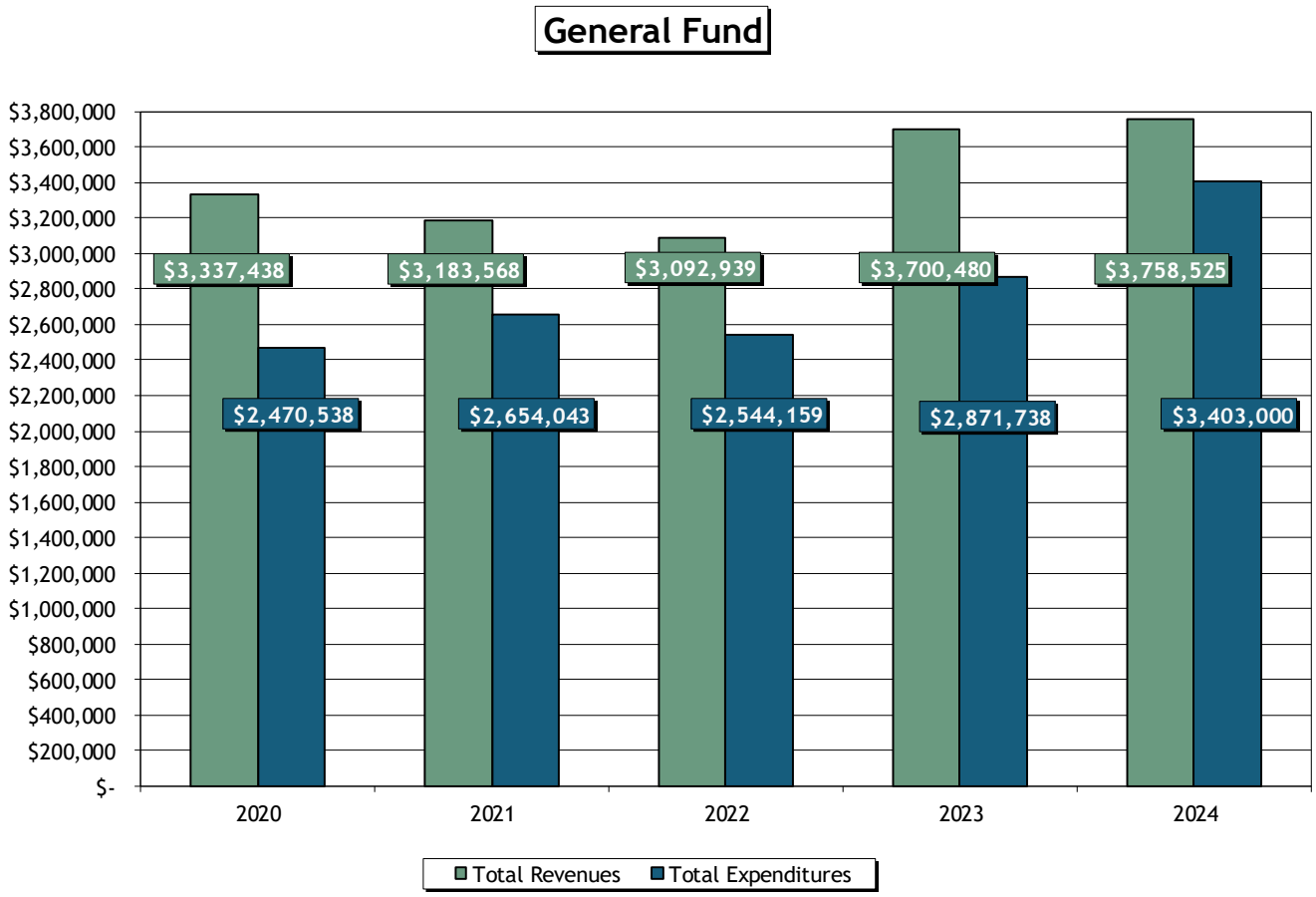
The following pages provide graphic representation of select data pertaining to the financial position and operations of the City for the past five years. Our analysis of each graph is presented to provide a basis of discussion of past performance and how implementing certain changes may enhance future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

General Fund Balance
At December 31, 2024, the General Fund balance was $3,707,345 which is an increase of $279,525 from 2023. Based on current expenditure levels, the fund balance represents over a year of expenditures.



City of Falcon Heights
Financial Analysis

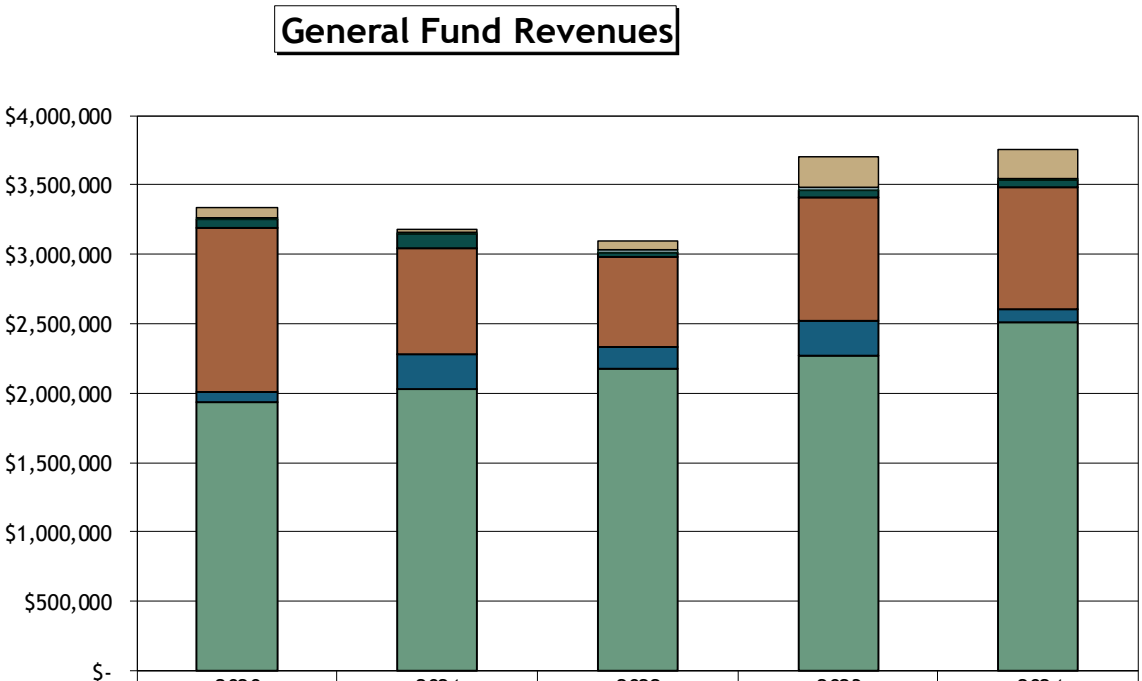
General Fund



General Fund revenues increased by $58,045, or 1.6%, in 2024. Expenditures in the General Fund increased by $531,262, or 18.50%, and resulted in total revenues exceeding expenditures by $355,525. In addition to expenditures, the fund also transferred out $76,000 to other funds. Further detailed explanations regarding variances will follow in subsequent charts.

City of Falcon Heights
Financial Analysis

General Fund Revenues



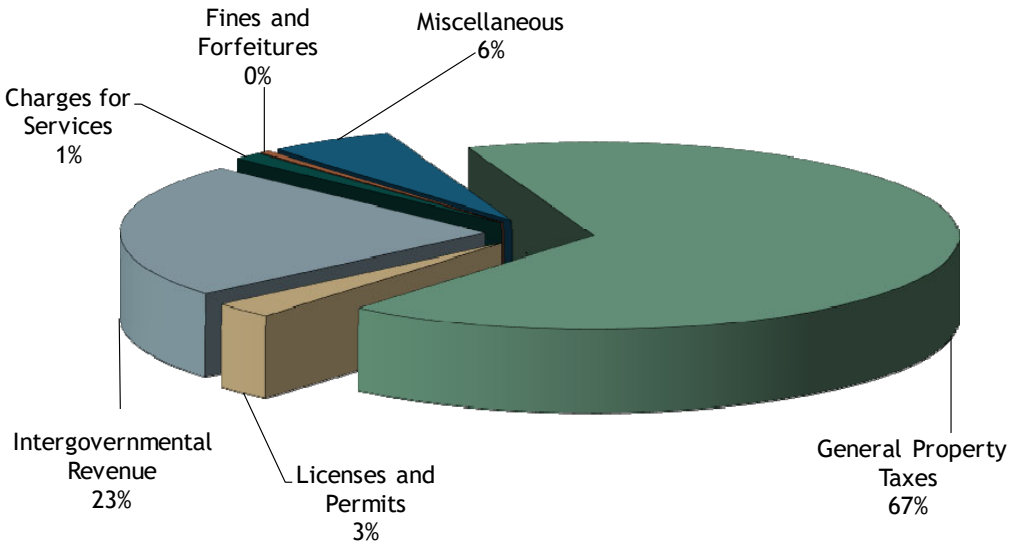
	2020	2021	2022	2023	2024
Miscellaneous	$73,470	$20,031	$60,552	$219,100	$209,209
Fines and Forfeitures	15,109	19,511	18,385	17,962	18,168
Charges for Services	58,138	101,149	31,069	55,291	47,488
Intergovernmental Revenue	1,177,761	759,424	652,290	891,191	876,076
Licenses and Permits	76,325	252,408	156,521	252,485	102,465
General Property Taxes	1,936,635	2,031,045	2,174,122	2,264,451	2,505,119

In 2024, revenues increased $58,045 or 1.6%, from 2023. Licenses and permit decreased $150,020 due to a decrease in building permits. Property tax revenue increased $240,668 due to an increase in levy.

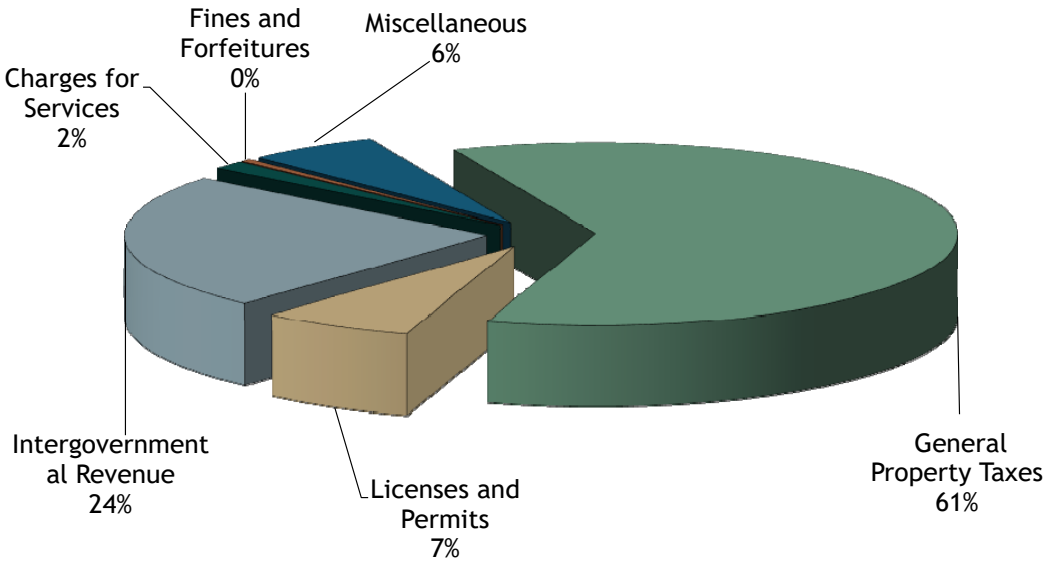
The other remaining General Fund revenues in 2024 stayed relatively consistent with the prior year.

General Fund Revenues (Continued)
The following charts depict the components of the General Fund revenues by percentages:

General Fund Revenues 2024

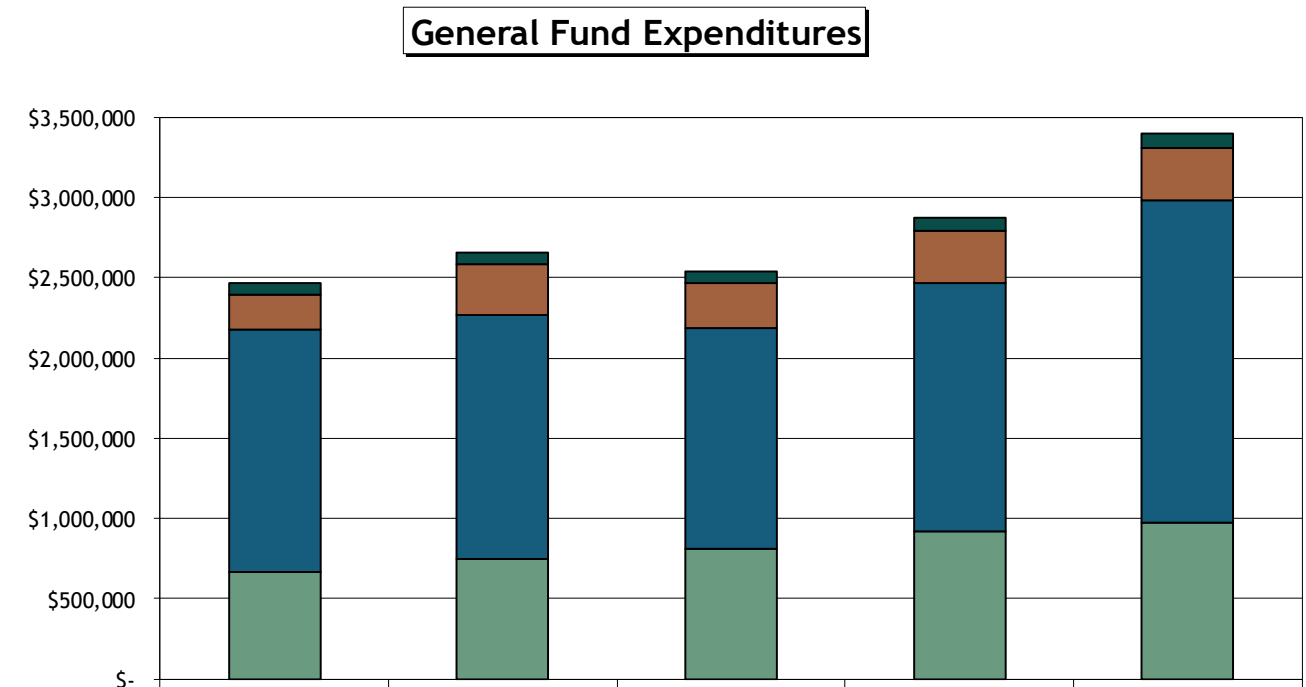


General Fund Revenues 2023



Licenses and Permit revenue decreased as a percentage of total revenue due to less building permits in the current year. General property taxes increased as a percentage of total revenue due to an increase in levy. All other General Fund revenues remained consistent year over year.

General Fund Expenditures

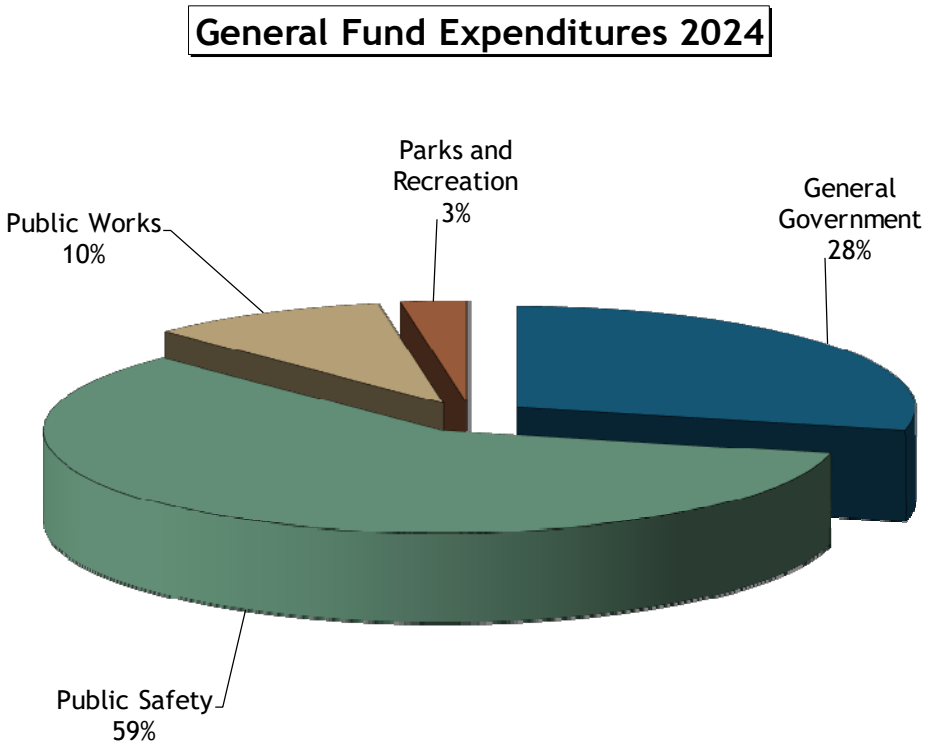


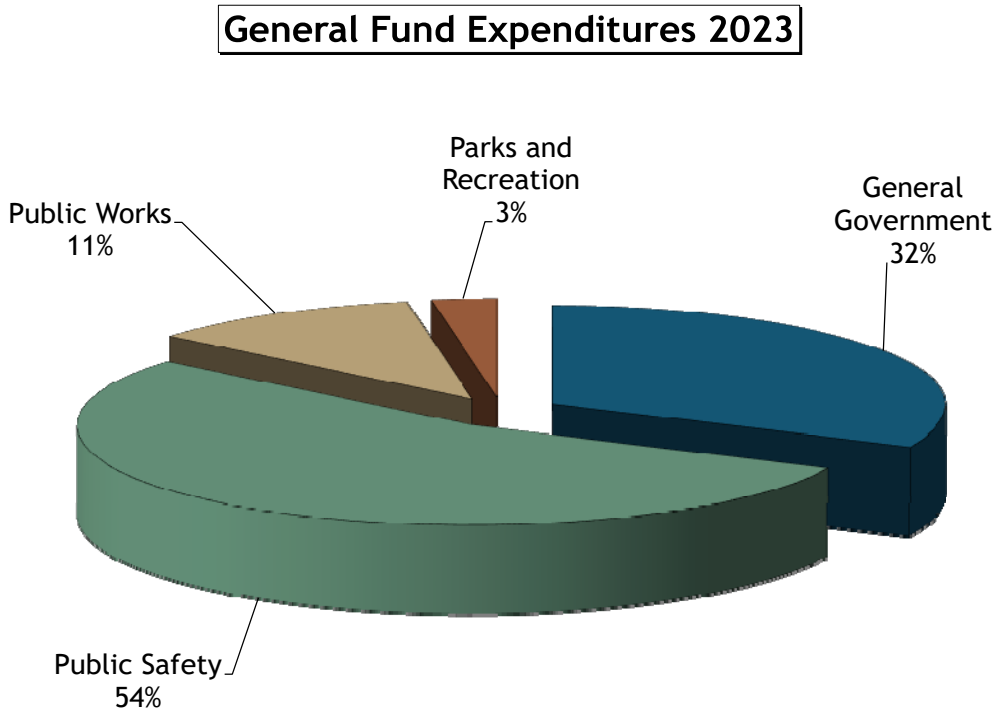
	2020	2021	2022	2023	2024
Parks and Recreation	$71,992	$71,896	$79,027	$77,388	$89,254
Public Works	222,964	309,582	273,384	324,627	331,014
Public Safety	1,505,502	1,525,779	1,383,570	1,551,150	2,009,092
General Government	670,080	746,786	808,178	918,573	973,640

In 2024, expenditures increased $531,262 or 18.50%, from 2023. Public safety expenditures increased $457,942, or 29.5% in 2024. This was related to an increase in police service during the year and the use of safety aid funds received. General government expenditures increased $55,067 as a result of annual salary increases.

Other expenditures stayed relatively consistent with the prior year.

General Fund Expenditures (Continued)





City of Falcon Heights
Financial Analysis

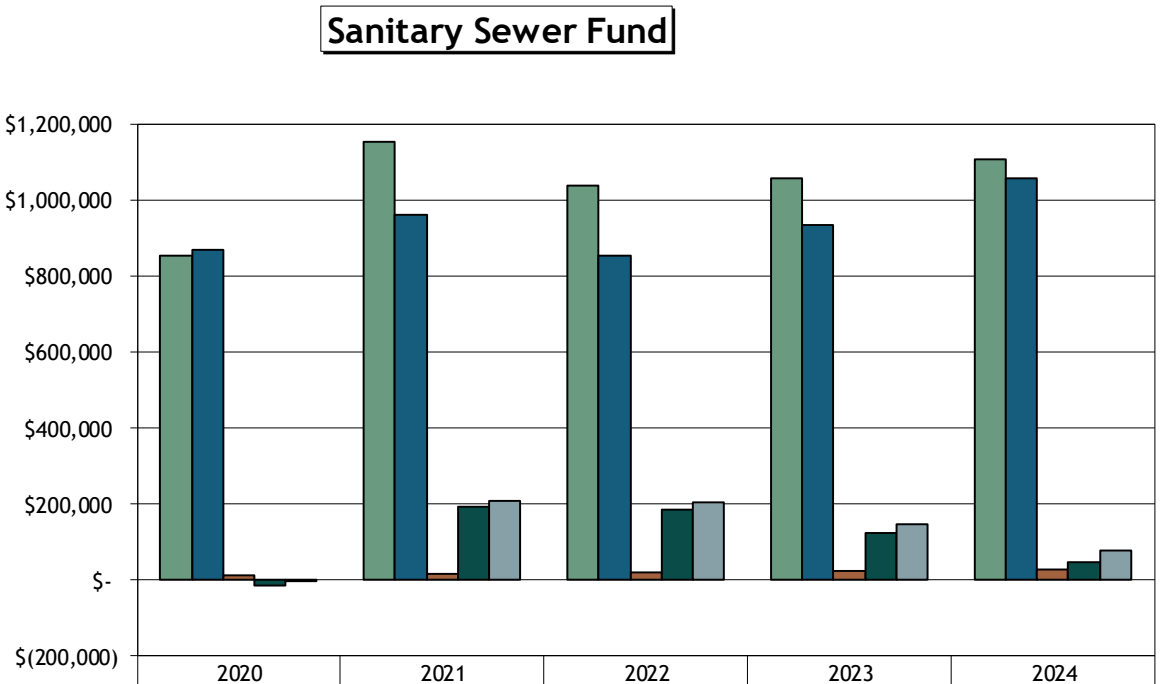
General Fund Budget

	Original and Final Budget	Actual Amounts	Variance with Final Budget - Over (Under)
Revenues			
Taxes	$ 2,510,386	$ 2,505,119	$ (5,267)
Tax increments	-	28,709	28,709
Licenses and permits	95,250	102,465	7,215
Intergovernmental	829,971	876,076	46,105
Charges for services	46,572	47,488	916
Fines and forfeitures	15,000	18,168	3,168
Miscellaneous	16,000	180,500	164,500
Total revenues	3,513,179	3,758,525	245,346
Expenditures			
General government	1,025,385	973,640	(51,745)
Public safety	2,043,033	2,009,092	(33,941)
Public works	354,026	331,014	(23,012)
Parks and recreation	102,735	89,254	(13,481)
Total expenditures	3,525,179	3,403,000	(122,179)
Excess of receipts over (under) disbursements	(12,000)	355,525	367,525
Other Financing Uses			
Transfers out	(76,000)	(76,000)	-
Net change in fund balance	$ (88,000)	$ 279,525	$ 367,525

Overall, General Fund revenues were over budget by 7.0%, or $245,346. The largest budget variance was in miscellaneous revenue, which exceeded budget amounts by $164,500. This variance is a result of conservative budgeting on investment income. Intergovernmental revenue exceeded budgeted amounts by $46,105 due to public safety aid received. Other categories were relatively on budget.

Expenditures were under budget by $122,179, or 3.5%. General government expenses were $51,745 under budget primarily due to the City budgeting for consulting planner and part time energy personnel, and no expenses were incurred related to these budgeted items. All other categories were relatively on budget.

Sanitary Sewer Fund
The graphs below and on the next page illustrate the current operations of the Sanitary Sewer and the Storm Drainage Funds.

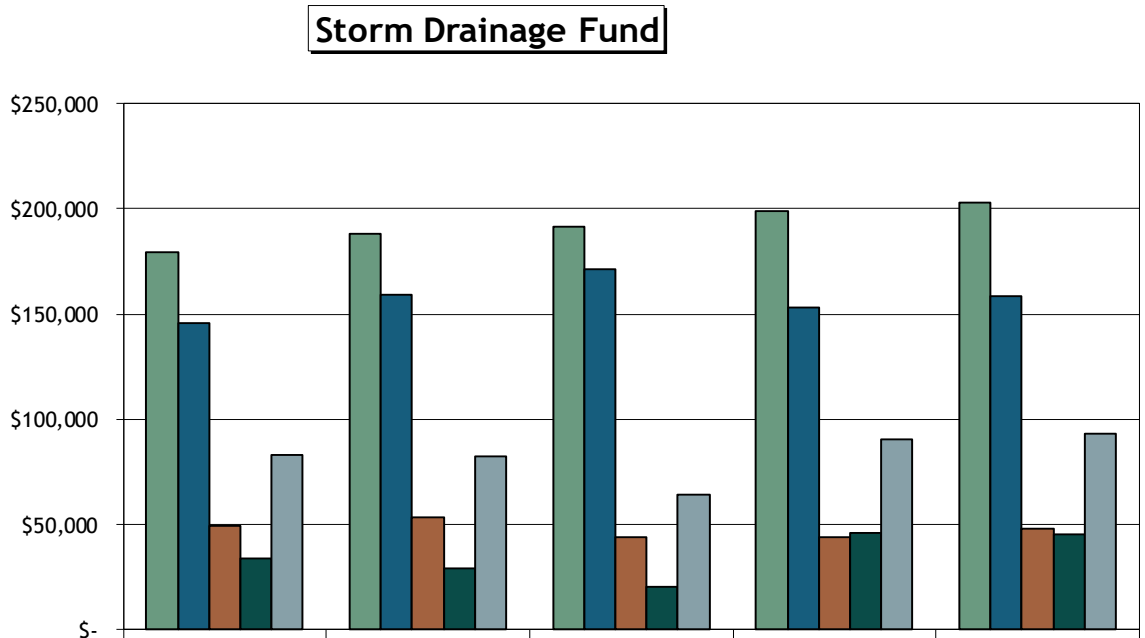


	2020	2021	2022	2023	2024
Sewer Charges	$852,185	$1,153,186	$1,038,379	$1,056,397	$1,105,796
Total Operating Expenses	867,393	960,715	852,016	933,620	1,057,156
Depreciation	12,272	15,333	18,577	22,355	29,039
Operating Income with Depreciation	(15,208)	192,471	186,363	122,777	48,640
Operating Income without Depreciation	(2,936)	207,804	204,940	145,132	77,679

The Sanitary Sewer Fund realized operating income of $48,640 during 2024. Sewer charges in 2024 increased by $49,399 from 2023. This increase was primarily the result of a slight increase in fees.

With an operating income of $48,640, $56,344 in nonoperating revenue and a $1,000,000 transfer out to other funds, the change in the Sanitary Sewer Fund net position was a decrease of $895,016. Total net position decreased to $2,936,827 in 2024. Of this amount, $1,363,561 represents the net investment in capital assets and $1,573,266 is unrestricted.

Storm Drainage Fund



	2020	2021	2022	2023	2024
Storm Drainage Charges	$179,662	$188,125	$191,637	$198,707	$203,265
Total Operating Expenses	145,903	158,873	171,265	152,756	158,264
Depreciation	49,301	53,237	43,829	44,120	48,113
Operating Income with Depreciation	33,759	29,252	20,372	45,951	45,001
Operating Income without Depreciation	83,060	82,489	64,201	90,071	93,114

Storm sewer charges for services stayed relatively consistent with the prior year, increasing $4,558. Operating expenses increased in 2024 by $5,508. The Storm Drainage Fund had operating income of $45,001 in 2024.

With $18,725 in investment income, the Storm Drainage Fund had a total increase in net position of $63,726. Ending net position at December 31, 2024, was $1,864,121. Of this amount, $1,459,265 represents the net investment in capital assets and $404,856 is unrestricted.

City of Falcon Heights
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.

City of Falcon Heights
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 as 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 District 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 Falcon Heights
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 Falcon Heights
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.